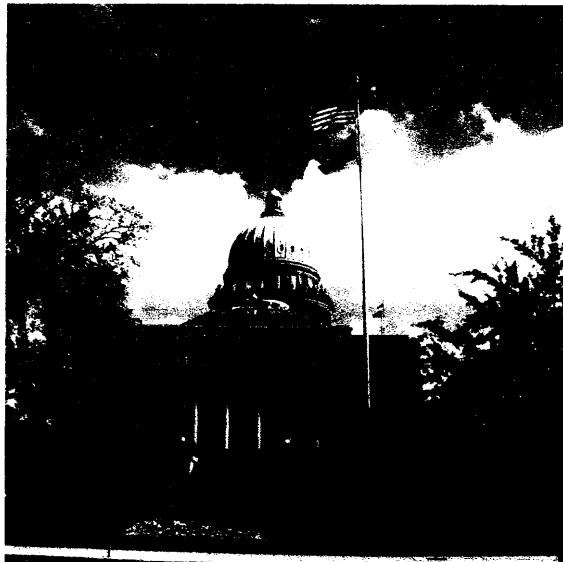


Single Audit Report

For the Fiscal Year Ended June 30, 2005



State of Idaho

Legislative Services Office



Legislative Services Office Idaho State Legislature

Carl F. Bianchi
Director

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April 19, 2006

Honorable Dirk Kempthorne, Governor
Members of the Idaho State Legislature
Honorable Keith Johnson, State Controller

We are pleased to submit the statewide *Single Audit* of the State of Idaho covering the fiscal year ended June 30, 2005. This report complies with the audit requirements placed on the State of Idaho as a condition for receiving almost \$1.9 billion in federal assistance (colleges and universities, with \$313.9 million in federal expenditures, and Idaho Housing and Finance Association, with \$42.4 million in federal expenditures are reported separately).

Idaho does a good job administering its federal funds in compliance with applicable laws and regulations. Questioned costs for fiscal year 2005 totaled \$434,456, although several issues are reported for which questioned costs could not be determined.

The federal audit requirements are contained in Title 31, Chapter 75, United States Code, as amended by the Single Audit Act Amendments of 1996. The objectives of the Single Audit Act are:

- To improve the financial management of state and local governments with respect to federal financial assistance programs through improved auditing.
- To establish uniform requirements for audits of federal financial assistance provided to state and local governments.
- To promote the efficient and effective use of audit resources.
- To ensure that federal departments and agencies, to the maximum extent practicable, rely on and use audit work performed pursuant to the requirements of the Single Audit Act.

The Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, was issued to facilitate the implementation of the Single Audit Act as amended in 1996. *OMB Circular A-133* places the responsibility for identifying major programs to audit on the auditor. A risk-based approach, which considers current and prior audit experience, federal oversight, and inherent risk, is used to identify major programs. All audit issues are in the section entitled "Auditor's Results." Internal control weaknesses and compliance issues related to federal awards are included in the subsection entitled "Federal Findings and Questioned Costs." Internal control weaknesses and compliance issues related to the basic financial statements are included in the subsection entitled "State Findings and Recommendations."

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This document contains the following reports and schedules:

- Basic Financial Statements and Notes and the related Independent Auditor's Opinion.
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
- Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*.
- Supplementary Schedules of Expenditures of Federal Awards.
- Auditor's Results (schedules of current and prior federal findings and questioned costs, as well as current and prior State findings and recommendations).

While only the State's basic financial statements are reproduced in this report, the complete *Comprehensive Annual Financial Report (CAFR)* can be obtained from either the State Controller's Office or our office.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Ray Ineck".

Ray Ineck, CGFM, Supervisor
Legislative Audits

**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

BASIC FINANCIAL STATEMENTS



**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

BASIC FINANCIAL STATEMENTS

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December 29, 2005

Independent Auditor's Report

Honorable Dirk Kempthorne, Governor
Honorable Members of the Legislature
Honorable Keith Johnson, State Controller

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Idaho as of and for the year ended June 30, 2005, that collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Endowment Fund Investment Board, State Lottery Commission, Public Employees Retirement System of Idaho, IDEal Idaho College Savings Program, University of Idaho, Idaho State University, Boise State University, Lewis and Clark State College, Eastern Idaho Technical College, Idaho Life and Health Insurance Guaranty Association, Petroleum Clean Water Trust Fund, Idaho Building Authority, and the Idaho Housing and Finance Association. Those financial statements represent total assets and revenues of the government-wide financial statements and total assets and revenues of the fund financial statements as follows:

<u>Government-Wide Financial Statements</u>	<u>Percent of Assets</u>	<u>Percent of Revenues</u>
Primary Government - Governmental Activities	16.5%	2.8%
Primary Government - Business-Type Activities	69.7%	53.1%
Aggregate Discretely Presented Component Units	100%	100%

<u>Fund Financial Statements</u>	<u>Percent of Assets</u>	<u>Percent of Revenues</u>
Governmental Funds		
Public School Endowment - Major Fund	100%	100%
Pooled Endowment - Major Fund	100%	100%
Proprietary Funds		
College and Universities - Major Fund	100%	100%
Aggregate Remaining Fund Information	80.2%	25.7%

Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those agencies and component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether

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the financial statements are free of material misstatement. The financial statements of the Idaho Life and Health Insurance Guaranty Association, the Idaho Housing and Finance Association, and the IDEal Idaho College Savings Program were not audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, are not covered by our reports in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Idaho as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

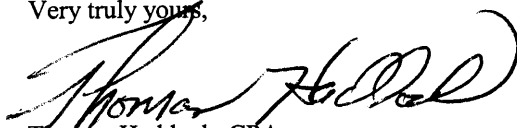
As discussed in Note 1 of the Notes to the Financial Statements, the State adopted Governmental Accounting Standards Board's (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have issued our report dated December 29, 2005, on our consideration of the State of Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages A-4 through A-11, and the required supplementary information on pages A-87 through A-91, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, the combining financial statements, and the statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Very truly yours,



Thomas Haddock, CPA
Legislative Audits

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the State of Idaho's financial performance provides an overview and analysis of the State's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter, which can be found preceding this narrative, and the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights

The assets of the State's primary government exceeded its liabilities for the fiscal year ended June 30, 2005, by \$7,080.5 million (reported as net assets). Of this amount, \$754.3 million (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors.

In fiscal year 2005 the State's total net assets increased by \$552.6 million. Net assets of governmental activities increased by \$467.1 million, while net assets of business-type activities increased by \$85.5 million.

Fund Highlights

As of the close of the fiscal year the State's governmental funds reported combined ending fund balances of \$1,816.5 million, with \$940.1 million reserved for specific purposes and \$876.4 million unreserved. This includes the General Fund's unreserved fund balance of \$544.3 million.

Long-Term Debt

The State's long-term debt increased \$9.7 million during the current fiscal year, from \$553.9 million in fiscal year 2004 to \$563.6 million in fiscal year 2005. The key factor in this increase was an increase in newly issued bonds and notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which include the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities, which report information about the State as a whole and present a long-term view of the State's finances using accounting methods similar to those used in the private sector. These statements are prepared using the flow of economic resource measurement focus and accrual basis of accounting, under which the current year's revenues and expenses are recorded as transactions occur rather than when cash is received or paid.

The *Statement of Net Assets* reports all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This Statement reports expenses and revenues in a format that focuses on the net cost of each function, allowing you to see which functions of the State draw upon the general revenues of the State and which functions contribute to the general revenues of the State.

The government-wide financial statements are divided into the following three categories:

Governmental activities encompass most of the State's basic services, such as general government, public safety and correction, health and human services, education, economic development, and natural resources. Revenues from taxes and federal grants finance most of these activities.

Business-type activities account for operations that function in a manner similar to private business, where all or a significant portion of costs are recovered through user fees and charges to external customers. These activities primarily include higher education, unemployment benefit payments, and loans to cities and counties to make improvements to their wastewater and drinking water systems.

Discretely presented component units are organizations legally separate from but financially accountable to the State, or their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. Discretely presented component units include the Idaho Housing and Finance Association, the college and university foundations, the Petroleum Clean Water Trust Fund, and the Idaho Life and Health Insurance Guaranty Association.

Fund Financial Statements

The fund financial statements provide detailed information about the State's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to demonstrate compliance with finance-related legal requirements. The State's funds are divided into the following three categories:

Governmental funds account for most of the State's basic services and provide a detailed short-term view of the State's general government operations. They account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, the fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements and capabilities. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Governmental funds include the General Fund, special revenue funds, and permanent funds.

Proprietary funds account for activities similar to for-profit enterprises, where the determination of net income is necessary for sound financial administration. Proprietary funds include enterprise and internal service funds. Enterprise funds report activities that provide supplies or services to the general public; internal service funds report activities that provide supplies and services for the State's programs and activities. Internal service funds are reported as governmental activities on the government-wide statements since their services predominantly benefit the State. Proprietary funds provide the same type of information as the government-wide financial statements, only in greater detail. As in the government-wide statements, proprietary fund financial statements use the accrual basis of accounting.

Fiduciary funds account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's programs. These funds are reported using the accrual basis of accounting.

This report includes two schedules in the governmental fund financial statements that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities and balances reported on the appropriate government-wide statements (accrual accounting). By comparing the information presented for governmental funds with similar information presented in the government-wide financial statements, you may better understand the long-term impact of the State's near-term financing decisions.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes the following:

- a budgetary comparison schedule reconciling the statutory operating activities and the generally accepted accounting principles operating activities and fund balances, as presented in the governmental fund financial statements;
- condition and maintenance data regarding the State's infrastructure that is reported using the modified basis; and
- schedules of funding progress and actuarial information in funding the State's obligation to provide pension benefits to certain employees.

Other Supplementary Information

Combining financial statements are presented after the required supplementary information to provide more detail for nonmajor special revenue, proprietary, and fiduciary funds. The total columns of these combining financial statements tie to the applicable basic financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net Assets

Net assets measure the difference between what the State owns (assets) versus what the State owes (liabilities). Net assets may serve over time as a useful indicator of the State's financial position. The State's assets exceeded liabilities by \$7.1 billion for fiscal year 2005.

The State's combined net assets increased \$552.6 million over the course of this fiscal year's operations. Net assets of governmental activities increased \$467.1 million and business-type activities net assets increased \$85.5 million.

Net Assets
June 30, 2005 and 2004
(dollars in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percent Change
	2005	2004	2005	2004	2005	2004	
	<i>as restated</i>				<i>as restated</i>		
Current and Other Assets	\$3,145,486	\$2,647,294	\$922,651	\$866,736	\$4,068,137	\$3,514,030	15.8
Capital Assets	4,180,941	3,969,564	758,176	711,648	4,939,117	4,681,212	5.5
Total Assets	7,326,427	6,616,858	1,680,827	1,578,384	9,007,254	8,195,242	9.9
Long-Term Liabilities	331,494	335,482	368,860	355,413	700,354	690,895	1.4
Other Liabilities	1,132,856	886,384	93,577	90,107	1,226,433	976,491	25.6
Total Liabilities	1,464,350	1,221,866	462,437	445,520	1,926,787	1,667,386	15.6
Net Assets:							
Invested in Capital Assets,							
Net of Related Debt	3,968,562	3,755,317	447,206	411,159	4,415,768	4,166,476	6.0
Restricted	1,291,077	1,230,263	619,352	556,540	1,910,429	1,786,803	6.9
Unrestricted	602,438	409,412	151,832	165,165	754,270	574,577	31.3
Total Net Assets	\$5,862,077	\$5,394,992	\$1,218,390	\$1,132,864	\$7,080,467	\$6,527,856	8.5

The largest component of the State's net assets, \$4,415.8 million or 62.4 percent, reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), net of accumulated depreciation and less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to citizens. These net assets are not available for future spending.

Restricted net assets are the next largest component of net assets, comprising 27 percent (\$1,910.4 million). These resources are not available for general use due to restrictions placed on them by external parties such as

creditors, grantors, or contributors; or by state law through constitutional provisions or enabling legislation.

The remaining 10.6 percent (\$754.3 million) of net assets represents unrestricted net assets, which may be used at the State's discretion but may have limitations on use based on state statutes.

At the end of the current fiscal year the State reported positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Change in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004
(dollars in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percent Change
	2005	2004	2005	2004	2005	2004	
	as restated				as restated		
Revenues							
Program Revenues							
Charges for Services	\$747,633	\$714,550	\$654,394	\$587,139	\$1,402,027	\$1,301,689	7.7
Operating Grants and Contributions	1,832,487	1,787,214	228,049	222,013	2,060,536	2,009,227	2.6
Capital Grants and Contributions	5,211	3,284	19,965	23,833	25,176	27,117	(7.2)
General Revenues							
Sales Tax	1,135,210	1,039,746			1,135,210	1,039,746	9.2
Individual and Corporate Taxes	1,167,799	991,520			1,167,799	991,520	17.8
Other Taxes	406,176	397,702			406,176	397,702	2.1
Other	38,740	85,031			38,740	85,031	(54.4)
Total Revenues	5,333,256	5,019,047	902,408	832,985	6,235,664	5,852,032	6.6
Expenses							
General Government	609,348	504,727			609,348	504,727	20.7
Public Safety and Correction	229,158	241,550			229,158	241,550	(5.1)
Health and Human Services	1,600,692	1,507,865			1,600,692	1,507,865	6.2
Education	1,331,795	1,287,879			1,331,795	1,287,879	3.4
Economic Development	616,149	600,341			616,149	600,341	2.6
Natural Resources	205,635	186,594			205,635	186,594	10.2
Interest Expense	18,175	16,556			18,175	16,556	9.8
College and University			753,689	699,674	753,689	699,674	7.7
Unemployment Compensation			142,862	164,950	142,862	164,950	(13.4)
Loan			654	913	654	913	(28.4)
Nonmajor Enterprise Funds			174,896	166,628	174,896	166,628	5.0
Total Expenses	4,610,952	4,345,512	1,072,101	1,032,165	5,683,053	5,377,677	5.7
Increase (Decrease) in Net							
Assets before Transfers	722,304	673,535	(169,693)	(199,180)	552,611	474,355	16.5
Transfers	(255,219)	(226,193)	255,219	226,193			-
Change in Net Assets	467,085	447,342	85,526	27,013	552,611	474,355	16.5
Net Assets, Beginning							
of Year, as Restated	5,394,992	4,947,650	1,132,864	1,105,851	6,527,856	6,053,501	7.8
Net Assets, End of Year	\$5,862,077	\$5,394,992	\$1,218,390	\$1,132,864	\$7,080,467	\$6,527,856	8.5

The total percent change column shows the percentage change in operations from fiscal year 2004 to 2005 for each line item. The reader should be cautious when using this column to evaluate the overall change in net assets. Although a line may show a large percentage change (i.e., 54.4 percent for other general revenues, \$46.3 million), it may not have as significant of an affect on the overall change in net assets as a change in a more material line item with a smaller percentage change (i.e., 7.7 percent for charges for services, \$100.3 million).

The State's overall financial position improved during the fiscal year, as evidenced by the \$552.6 million increase in net assets. Key elements of this increase include a 17.8 percent increase (\$176.3 million) in individual and corporate taxes due to increasing levels of employment and personal income. Charges for services

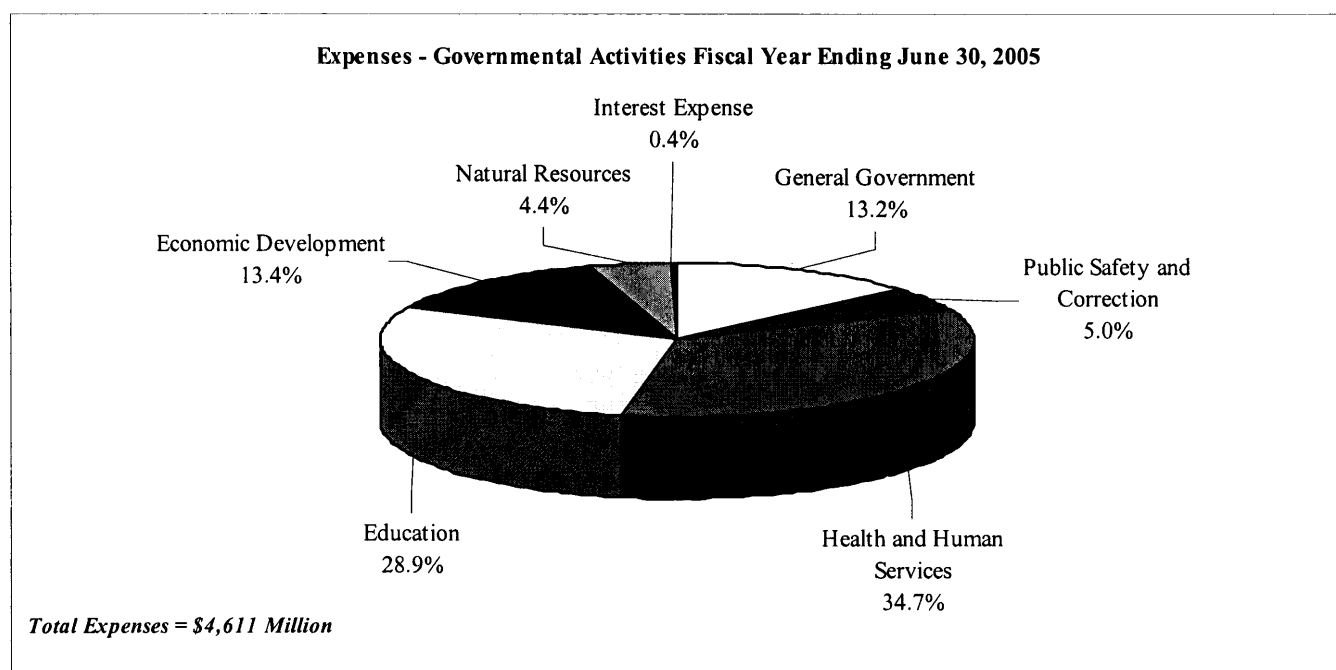
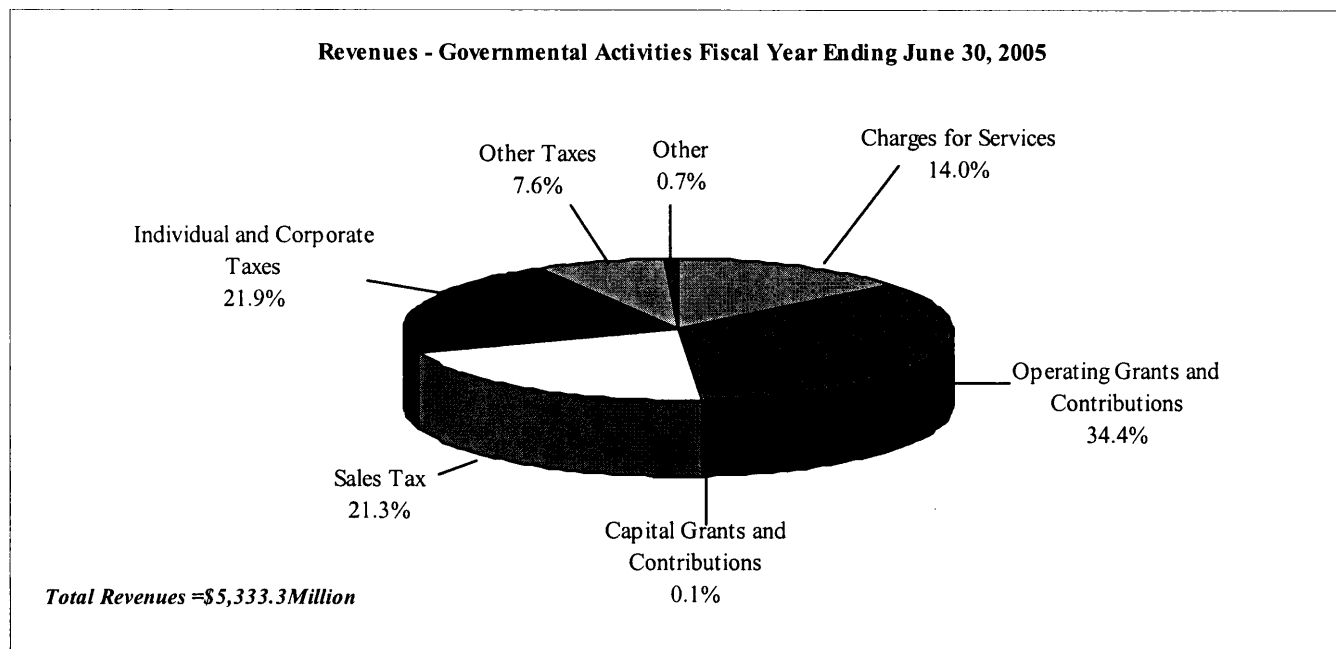
revenues increased by 7.7 percent (\$100.3 million) largely due to increased educational fees, unemployment assessments, and liquor sales. In addition revenues from sales tax increased 9.2 percent (\$95.5 million) mainly due to increased consumer spending. The revenue increases were offset to a degree by some increased

expenses. The most significant change in expenses was an increase of 20.7 percent (\$104.6 million) for the general government function, primarily related to distributions of increased tax collections and premium increases for health insurance and property and general liability risk. Health and Human Services expenses

increased by 6.2 percent (\$92.8 million) mainly due to greater medical assistance payments. College and University expenses increased by 7.7 percent (\$54 million) mainly due to increased personnel costs and maintenance and operating costs for new facilities.

Governmental Activities:

The following charts depict revenues and expenses of the governmental activities for the current fiscal year:



Business-Type Activities:

Business-type activities net assets increased by \$85.5 million in fiscal year 2005. The largest changes were seen in the following funds:

- College and University net assets increased by \$35.5 million primarily due to an increase of \$25.2 million in fees, an increase in General Fund support of \$8.0 million, and an increase of \$5.3 million in sale of goods and services.
- The Loan fund saw an increase in net assets of \$49.8 million primarily due to transfers from the General Fund (\$21.3 million) and the Liquor fund (\$7.2 million) to purchase water rights.

Pooled Endowment's fund balance increased by \$22.6 million in fiscal year 2005, attributable to a \$17.9 million increase in the fair value of investments.

Nonmajor special revenue fund balance decreased during the fiscal year by \$44 million largely due to expenditures related to the purchase of capital assets by the Idaho State Building Authority.

Proprietary Funds

Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. These funds are discussed in business-type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Governmental Funds

As of the end of the current fiscal year the State's governmental funds reported combined ending fund balances of \$1,816.5 million, an increase of \$244.3 million in comparison with the prior fiscal year. Of this amount, \$876.4 million (48.2 percent) constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds, but may be limited by state statutes. The remainder of the fund balance (\$940.1 million) is reserved to indicate that it is not available for new spending because it has already been reserved for various commitments, such as liquidation of purchase orders and contracts of the prior period and permanent trusts held for education.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year unreserved fund balance was \$544.3 million and reserved fund balance was \$28.7 million. Total fund balance increased \$202.4 million (54.6 percent) during the fiscal year, primarily as a result of increased sales tax revenues of \$96.7 million and increased individual and corporate tax revenues of \$179.4 million.

Health and Welfare's fund balance increased from fiscal year 2004's negative fund balance of \$12.1 million to a positive fund balance of \$2.5 million in fiscal year 2005, primarily due to an increase in grants and contributions and General Fund support.

Public School Endowment's fund balance increased by \$52.6 million in fiscal year 2005 due largely to a \$37.1 million increase in the fair value of investments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Legislature made final adjustments to the fiscal year 2005 budget based on an estimated 7.8 percent revenue increase. Overall, the General Fund budget for fiscal year 2005 increased by 6.2 percent over the fiscal year 2004 budget.

At fiscal year-end there was a revenue surplus of \$110.8 million, 5.1 percent higher than forecast. The key factor in the Legislature's approach to the budget was to maximize the 2005 ending balance to carry over into fiscal year 2006 to help offset the sunset of the temporary one-cent sales tax increase.

The variance between the original and final budget in the expenditures section of the General Fund Budgetary Comparison Schedule is \$5.7 million, a 0.2 percent increase in original expenditure appropriations. The original budget amount represents the original appropriation, prior year reappropriations, and continuous appropriations. The final budget amount includes the original budget plus supplemental (positive or negative) appropriations, Governor's holdbacks, Board of Examiners reductions, object transfers, actual transfers, and receipts to the appropriation. The variation between the final budget and actual spending was a favorable \$108.0 million (or 4.6 percent). This was primarily due to legislative actions and a conservative fiscal policy.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005 the State had \$4,939.1 million (net of accumulated depreciation) invested in a broad range of capital assets, as can be seen in the table

below. Depreciation charges for this fiscal year totaled \$96.5 million.

Capital Assets as of June 30, 2005 and 2004

(Net of depreciation, dollars in thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2005	2004	2005	2004	2005	2004
	as adjusted				as adjusted	
Land	\$900,100	\$881,904	\$41,019	\$36,267	\$941,119	\$918,171
Construction in Progress	647,061	625,147	63,152	74,647	710,213	699,794
Infrastructure--not Depreciated	1,779,877	1,733,104			1,779,877	1,733,104
Historical Art and Collections	123	107	2,222	2,180	2,345	2,287
Intangible Assets			22,573		22,573	
Buildings and Improvements	343,001	250,597	521,186	484,246	864,187	734,843
Improvements Other Than Buildings	30,575	23,248	22,874	24,037	53,449	47,285
Machinery, Equipment, and Other	117,029	119,811	85,150	90,271	202,179	210,082
Infrastructure--Depreciated	363,175	335,646			363,175	335,646
Total	\$4,180,941	\$3,969,564	\$758,176	\$711,648	\$4,939,117	\$4,681,212

The total increase in investment in capital assets for the current fiscal year (including additions and deductions) was \$257.9 million, or 5.5 percent. This year's major additions include \$265.7 million for infrastructure assets, which includes construction in progress (\$159.0 million), roadways (\$48.3 million), rights-of-way (\$18.8 million), and bridges and ports of entry (\$39.6 million).

The State uses the traditional method of depreciation for its 1,649 bridges and 33 rest areas or ports of entry. As allowed by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the State has adopted the modified approach for reporting roads. Under this alternative method, certain maintenance and preservation costs are expensed and depreciation expense is not reported. Approximately 11,852 lane miles of roads are accounted for under the modified approach. The State manages its roadway network using its Pavement Management System to monitor road surface condition. The pavement surface condition rating is a numerical condition scale ranging from 0.0 (extremely poor) to 5.0 (good). An interstate roadway surface is considered substandard under this approach at less than 2.5. The State's established condition level is to have no more than 18 percent of road surfaces in substandard condition. The latest condition assessment rating for calendar year 2004 showed that the State had 81 percent of its road surfaces in good or fair condition, down from

84 percent in condition assessment year 2003 and 85 percent in 2002. During fiscal year 2005 the State spent \$79.3 million to maintain Idaho's road surfaces, down from \$81.1 million spent during fiscal year 2004. More detailed information about the State's capital assets is presented in Notes 1 and 6 to the financial statements and in required supplementary information.

Long-Term Debt

Article VIII, Section 1, of the *Idaho Constitution*, amended in 1998, specifies that the Legislature shall not create any debts or liabilities, except in extreme emergencies, unless authorized by law and then approved by the people at a general election. This does not apply to liabilities incurred for ordinary operating expenses, nor debts or liabilities that are repaid by the end of the fiscal year. The debts or liabilities of independent public bodies corporate and politic created by law and which have no power to levy taxes or obligate the General Fund of the State are not debts or liabilities of the State.

Legislation was passed during the 2005 legislative session revising *Idaho Code*, Title 40, to address the increasing need for timely improvements to Idaho's highway infrastructure. The Idaho Transportation Board, with the approval of the Legislature, can approve debt financing for transportation infrastructure projects

utilizing future federal-aid highway revenues. Opinions have been received from the Office of the Attorney General, based on the Idaho Supreme Court decision in *Ada County v. Wright*, to the effect that this procedure does not create a liability of the State in violation of the *Idaho Constitution*.

New state debt mainly resulted from Idaho State University, Boise State University, University of Idaho, and the Department of Water Resources issuing revenue bonds and notes in the amounts of \$10.6 million, \$23.1 million, \$29.4 million, and \$6.6 million, respectively, for various projects.

The shadow rating for the State of Idaho improved during the year. Since the State does not issue general obligation debt, a shadow rating is a rating given had such debt been issued. The rating went from Aa3 to Aa2.

Moody's, an investor rating service, has assigned its top issuer rating of MIG1 to the State with a stable outlook for its tax anticipation notes. The State's conservative debt policies have led to modest state debt levels, falling well below national medians. More detailed information about the State's long-term debt is presented in Notes 1 and 12 to the financial statements.

ECONOMIC FACTS AND NEXT YEAR'S BUDGET

The State experienced an improving economy during fiscal year 2005 and expects the same for fiscal year

2006. The fiscal year 2006 General Fund budget is based on an expected revenue growth of 5.1 percent. The cigarette tax increase slated to sunset June 30, 2005, was made permanent. In fiscal year 2006 the Legislature may have to use the proceeds of the cigarette tax increase to help balance the General Fund budget and pay for the cost of water agreements.

The fiscal year 2006 budget includes a maintenance level for state employee health insurance cost, statutory increases for Medicaid and public schools, an enrollment workload adjustment for higher education, and direct costs to keep pace with inmate growth. The basic philosophy of the budget approach for fiscal year 2006 is to cover only those costs associated with our current statutory program responsibilities and not to expand state services or programs.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, the Legislature, investors, and creditors with a general overview of the State's finances and to show the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the State Controller, 700 West State Street, P.O. Box 83720, Boise, ID 83720-0011, (208) 334-3150.

State of Idaho

Statement of Net Assets

June 30, 2005

(dollars in thousands)

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash with Treasurer	\$775,132	\$84,789	\$859,921
Cash and Cash Equivalents	17,944	167,706	185,650
Investments	966,583	177,817	1,144,400
Securities Lending Collateral	734,896		734,896
Accounts Receivable, Net	86,765	120,961	207,726
Taxes Receivable, Net	266,638		266,638
Internal Balances	(421)	421	
Due from Other Entities	176,821		176,821
Inventories and Prepaid Items	39,516	13,581	53,097
Due from Primary Government			
Due from Component Unit		78,962	78,962
Loans and Notes Receivable, Net	6,840	139,168	146,008
Other Assets	5,783	13,067	18,850
Restricted Assets:			
Cash and Cash Equivalents	48,021	100,098	148,119
Investments	20,968	26,081	47,049
Capital Assets:			
Nondepreciable	3,327,161	128,966	3,456,127
Depreciable, Net	853,780	629,210	1,482,990
Total Assets	\$7,326,427	\$1,680,827	\$9,007,254
LIABILITIES			
Accounts Payable	\$120,926	\$21,313	\$142,239
Payroll and Related Liabilities	43,263	40,708	83,971
Medicaid Payable	137,079		137,079
Due to Other Entities	27,572	1,571	29,143
Unearned Revenue	34,500	16,385	50,885
Amounts Held in Trust for Others	6,078	2,591	8,669
Due to Primary Government			
Obligations Under Securities Lending	734,896		734,896
Other Accrued Liabilities	28,542	11,009	39,551
Long-Term Liabilities:			
Due Within One Year	63,747	31,479	95,226
Due in More Than One Year	267,747	337,381	605,128
Total Liabilities	1,464,350	462,437	1,926,787
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,968,562	447,206	4,415,768
Restricted for:			
Claims and Judgments	42,389		42,389
Debt Service	9,855	412	10,267
Intergovernmental Revenue Sharing	48,997		48,997
Transportation	120,926		120,926
Regulatory	43,151		43,151
Natural Resources and Recreation	68,006	132,617	200,623
Unemployment Compensation		229,646	229,646
Permanent Trust - Expendable	96,393	57,229	153,622
Permanent Trust - Nonexpendable	788,897	78,667	867,564
Other Purposes	72,463	120,781	193,244
Unrestricted	602,438	151,832	754,270
Total Net Assets	5,862,077	1,218,390	7,080,467
Total Liabilities and Net Assets	\$7,326,427	\$1,680,827	\$9,007,254

The accompanying notes are an integral part of the financial statements.

Component Units
\$55,299
747,200
11,923
1,150
5,657
1,004,770
20,008
13,724
874
21,532
16,726
\$1,898,863
\$872
2,378
14,874
78,962
104,830
147,234
1,129,389
1,478,539
17,956
128,542
63,090
155,762
54,974
420,324
\$1,898,863

State of Idaho

Statement of Activities

For the Fiscal Year Ended June 30, 2005

(dollars in thousands)

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses			
FUNCTIONS				
Primary Government				
Governmental Activities				
General Government	\$609,348	\$302,554	\$45,798	\$50
Public Safety and Correction	229,158	22,201	17,240	501
Health and Human Services	1,600,692	88,585	1,076,537	
Education	1,331,795	7,560	212,337	1,965
Economic Development	616,149	203,550	331,738	2,687
Natural Resources	205,635	123,183	148,837	8
Interest Expense	18,175			
Total Governmental Activities	4,610,952	747,633	1,832,487	5,211
Business-Type Activities				
College and University	753,689	288,353	212,323	19,965
Unemployment Compensation	142,862	143,828	5,104	
Loan	654	8,508	10,622	
Nonmajor Enterprise Funds	174,896	213,705		
Total Business-Type Activities	1,072,101	654,394	228,049	19,965
Total Primary Government	\$5,683,053	\$1,402,027	\$2,060,536	\$25,176
Component Units				
Idaho Housing and Finance Association	\$78,304	\$79,524		
College and University Foundation	34,748	20,241	\$36,347	
Petroleum Clean Water Trust Fund	2,551	856		
Life and Health Insurance Guaranty	812	792		
Total Component Units	\$116,415	\$101,413	\$36,347	

General Revenues

Sales Tax
Individual and Corporate Taxes
Fuel Tax
Other Taxes
Tobacco Settlement
Permanent Endowment Contributions
Unrestricted Investment Earnings
Payments from State of Idaho

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year, as Restated

Net Assets - End of Year

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total	Component Units
----------------------------	-----------------------------	-------	--------------------

(\$260,946)		(\$260,946)	
(189,216)		(189,216)	
(435,570)		(435,570)	
(1,109,933)		(1,109,933)	
(78,174)		(78,174)	
66,393		66,393	
(18,175)		(18,175)	
(2,025,621)		(2,025,621)	

(\$233,048) (233,048)

6,070 6,070

18,476 18,476

38,809 38,809

(169,693) (169,693)

(2,025,621) (169,693) (2,195,314)

\$1,220

21,840

(1,695)

(20)

21,345

1,135,210 1,135,210

1,167,799 1,167,799

220,801 220,801

185,375 185,375

23,145 23,145

532

15,595 15,595

430

(255,219) 255,219

2,492,706 255,219 2,747,925 962

467,085 85,526 552,611 22,307

5,394,992 1,132,864 6,527,856 398,017

\$5,862,077 \$1,218,390 \$7,080,467 \$420,324

*State of Idaho***Balance Sheet****Governmental Funds****June 30, 2005***(dollars in thousands)*

	General	Health and Welfare	Transportation	Public School Endowment
ASSETS				
Cash with Treasurer	\$423,938	\$34,040	\$71,723	\$91
Cash and Cash Equivalents	558	7	2,479	1,982
Investments	21,341		43,478	563,988
Securities Lending Collateral	641,055			63,279
Accounts Receivable, Net	13,113	12,681	2,626	34,811
Taxes Receivable, Net	239,469	155	24,143	
Interfund Receivables	722	4	33	
Due from Other Entities	76	119,876	23,624	
Inventories and Prepaid Items	5,234	4,293	14,497	
Loans and Notes Receivable, Net			387	
Other Assets	61	14	311	1,075
Restricted Assets:				
Cash and Cash Equivalents	64	3,920	4,820	
Investments		2,014		
Total Assets	\$1,345,631	\$177,004	\$188,121	\$665,226
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$19,920	\$13,876	\$21,636	\$33,201
Payroll and Related Liabilities	13,012	9,309	5,940	
Medicaid Payable		137,079		
Interfund Payables	263	551	259	
Due to Other Entities	12		27,548	
Deferred Revenue	86,065	8,878	6,964	
Amounts Held in Trust for Others	242	3,155	117	
Obligations Under Securities Lending	641,055			63,279
Other Accrued Liabilities	12,058	1,609	4,730	
Total Liabilities	772,627	174,457	67,194	96,480
Fund Balances				
Reserved for:				
Bond Retirement				
Encumbrances	23,148	1,143	13,010	
Inventories and Prepaid Items	5,234	4,293	14,497	
Noncurrent Receivables	321		387	
Permanent Trusts				537,181
Other Purposes		5,005	4,703	
Unreserved, Reported in:				
General Fund	544,301			
Special Revenue Funds		(7,894)	88,330	
Permanent Funds				31,565
Total Fund Balances	573,004	2,547	120,927	568,746
Total Liabilities and Fund Balances	\$1,345,631	\$177,004	\$188,121	\$665,226

The accompanying notes are an integral part of the financial statements.

Pooled Endowment	Nonmajor Special Revenue	Total
	\$169,431	\$699,223
\$957	10,176	16,159
272,390	33,982	935,179
30,562		734,896
16,175	7,034	86,440
	2,871	266,638
129	2,735	3,623
	33,245	176,821
	11,285	35,309
	6,453	6,840
521	542	2,524
	39,217	48,021
	18,954	20,968
\$320,734	\$335,925	\$3,032,641

\$16,029	\$16,075	\$120,737
	14,300	42,561
		137,079
	3,144	4,217
	12	27,572
	15,586	117,493
	2,564	6,078
30,562		734,896
	7,125	25,522
46,591	58,806	1,216,155

	9,855	9,855
	16,768	54,069
	11,285	35,309
	8,689	9,397
251,716		788,897
	32,858	42,566
		544,301
	197,664	278,100
22,427		53,992
274,143	277,119	1,816,486
\$320,734	\$335,925	\$3,032,641

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State of Idaho

Reconciliation of the Governmental Funds Balance Sheet

To the Statement of Net Assets

June 30, 2005

(dollars in thousands)

Total Fund Balances - Governmental Funds \$1,816,486

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of the following:

Land	\$900,100	
Construction in Progress	647,061	
Infrastructure	2,274,216	
Historical Art and Collections	72	
Buildings and Improvements	554,100	
Improvements Other Than Buildings	41,263	
Machinery, Equipment, and Other	290,099	
Accumulated Depreciation	<u>(529,791)</u>	
Total Capital Assets		4,177,120

Some of the State's revenue will be collected after year-end but is not available soon enough to pay for the current period's expenditures and therefore is deferred in the funds. 93,835

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 67,560

Bond issue costs are reported as current expenditures in the funds. However, these costs are deferred on the Statement of Net Assets. 3,034

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of the following:

Capital Leases Payable	(8,636)	
Compensated Absences Payable	(42,435)	
Bonds and Notes Payable	(204,256)	
Accrued Interest on Bonds	(3,020)	
Claims and Judgments	(36,990)	
Other Long-Term Liabilities	<u>(621)</u>	
Total Long-Term Liabilities		<u>(295,958)</u>

Net Assets - Governmental Activities \$5,862,077

State of Idaho

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(dollars in thousands)

	General	Health and Welfare	Transportation	Public School Endowment
REVENUES				
Sales Tax	\$1,132,338			
Individual and Corporate Taxes	1,176,903			
Other Taxes	63,058	\$1,681	\$214,022	
Licenses, Permits, and Fees	18,217	4,261	109,392	
Sale of Goods and Services	76,549	78,785	4,666	\$39,420
Grants and Contributions	2,035	1,075,835	250,071	
Investment Income	19,030	105	4,187	50,671
Tobacco Settlement	23,151			
Other Income	22,794	5,853	1,617	
Total Revenues	2,534,075	1,166,520	583,955	90,091
EXPENDITURES				
Current:				
General Government	110,464			
Public Safety and Correction	186,764			
Health and Human Services	22,093	1,539,672		
Education	1,114,798			
Economic Development	18,108		154,196	
Natural Resources	25,368			14,572
Capital Outlay	91,028	3,444	299,206	
Intergovernmental Revenue Sharing	162,709	39,405	123,798	
Debt Service:				
Principal Retirement	152		2,000	
Interest and Other Charges	8,091			
Total Expenditures	1,739,575	1,582,521	579,200	14,572
Revenues Over (Under) Expenditures	794,500	(416,001)	4,755	75,519
OTHER FINANCING SOURCES (USES)				
Bonds and Notes Issued				
Capital Lease Acquisitions	26			
Sale of Capital Assets	373	70	6,823	10
Transfers In	128,419	430,759		
Transfers Out	(720,896)	(196)	(15,409)	(22,958)
Total Other Financing Sources (Uses)	(592,078)	430,633	(8,586)	(22,948)
Net Change in Fund Balances	202,422	14,632	(3,831)	52,571
Fund Balances - Beginning of Year, As Restated	370,582	(12,085)	124,758	516,175
Fund Balances - End of Year	\$573,004	\$2,547	\$120,927	\$568,746

The accompanying notes are an integral part of the financial statements.

Pooled Endowment	Nonmajor Special Revenue	Total
	\$4,800	\$1,137,138
		1,176,903
	127,859	406,620
	112,295	244,165
\$18,074	43,045	260,539
	429,772	1,757,713
24,512	6,052	104,557
		23,151
	17,783	48,047
42,586	741,606	5,158,833

	33,120	143,584
	46,834	233,598
		1,561,765
	209,271	1,324,069
	173,952	346,256
5,595	132,866	178,401
	68,229	461,907
	67,283	393,195
	8,728	10,880
	9,580	17,671
5,595	749,863	4,671,326
36,991	(8,257)	487,507

	26	26
	3,731	3,757
	761	8,037
	35,699	594,877
(14,437)	(75,965)	(849,861)
(14,437)	(35,748)	(243,164)
22,554	(44,005)	244,343
251,589	321,124	1,572,143
\$274,143	\$277,119	\$1,816,486

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State of Idaho

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances -- Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005**

(dollars in thousands)

Net Change in Fund Balances - Governmental Funds		\$244,343
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense. Capital outlays exceeded depreciation expense in the current year by the following amount:		
Capital Outlay	265,693	
Depreciation Expense	<u>(49,731)</u>	215,962
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities but only proceeds from sales are reported in the governmental funds.		(10,586)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. In the current year deferred revenue decreased.		(10,493)
The issuance of long-term debt provides current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current year the following debt was incurred:		
Bonds and Notes	(26)	
Capital Leases	<u>(3,756)</u>	(3,782)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:		
Capital Leases	376	
Bond and Note Principal	<u>10,504</u>	10,880
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. In the current year these amounts consisted of:		
Accrued Interest and Amortization	(871)	
Compensated Absences	(1,871)	
Other Long-Term Liabilities	<u>6,892</u>	4,150
Internal service funds are reported separately from governmental funds in the fund statements. In the government-wide statements, internal service funds are included with governmental activities.		<u>16,611</u>
Change in Net Assets - Governmental Activities		<u>\$467,085</u>

State of Idaho

Statement of Net Assets
Proprietary Funds
June 30, 2005
(dollars in thousands)

	Business-Type Activities--Enterprise Funds			
	College and University	Unemployment Compensation	Loan	Nonmajor Enterprise Funds
ASSETS				
Current Assets				
Cash with Treasurer	\$32,049	\$2,132	\$15,926	\$34,682
Cash and Cash Equivalents	63,036	103,427		1,243
Investments	19,686			
Accounts Receivable, Net	73,084	46,861		1,016
Interfund Receivables	226			233
Inventories and Prepaid Items	5,063			8,518
Loans and Notes Receivable, Net	4,117		4,263	
Other Current Assets	3,017	569	2,613	241
Total Current Assets	200,278	152,989	22,802	45,933
Noncurrent Assets				
Restricted Cash and Cash Equivalents	2,651		95,193	2,254
Investments	78,715	79,416		
Restricted Investments	26,081			
Due from Component Unit	78,962			
Loans and Notes Receivable, Net	20,643		110,145	
Other Long-Term Assets	6,627			
Capital Assets, Net	725,738		27,358	5,080
Total Noncurrent Assets	939,417	79,416	232,696	7,334
Total Assets	\$1,139,695	\$232,405	\$255,498	\$53,267
LIABILITIES				
Current Liabilities				
Accounts Payable	\$13,881	\$2,759		\$4,673
Payroll and Related Liabilities	39,947			761
Interfund Payables				38
Due to Other Entities			\$11	1,560
Unearned Revenue	16,366			19
Amounts Held in Trust for Others	2,591			
Other Accrued Liabilities	7,052		319	3,638
Capital Leases Payable	331			51
Capital Leases Payable to Component Unit	235			
Compensated Absences Payable	15,984			830
Bonds and Notes Payable	12,635		1,413	
Policy Claim Liabilities				
Total Current Liabilities	109,022	2,759	1,743	11,570
Noncurrent Liabilities				
Capital Leases Payable	1,068			
Capital Leases Payable to Component Unit	3,422			
Bonds and Notes Payable	322,953		9,938	
Policy Claim Liabilities				
Total Noncurrent Liabilities	327,443		9,938	
Total Liabilities	436,465	2,759	11,681	11,570
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	426,170		16,007	5,029
Restricted for:				
Claims and Judgments				
Debt Service			412	
Permanent Trust - Expendable	57,229			
Permanent Trust - Nonexpendable	78,667			
Other Purposes			94,781	26,000
Unrestricted	141,164	229,646	132,617	10,668
Total Net Assets	703,230	229,646	243,817	41,697
Total Liabilities and Net Assets	\$1,139,695	\$232,405	\$255,498	\$53,267

The accompanying notes are an integral part of the financial statements.

Governmental Activities	
Total	Internal Service Funds
\$84,789	\$75,909
167,706	1,785
19,686	
120,961	325
459	242
13,581	4,207
8,380	
6,440	225
422,002	82,693
100,098	
158,131	31,404
26,081	
78,962	
130,788	
6,627	
758,176	3,821
1,258,863	35,225
\$1,680,865	\$117,918
\$21,313	\$189
40,708	702
38	69
1,571	
16,385	10,842
2,591	
11,009	
382	456
235	
16,814	639
14,048	
	7,027
125,094	19,924
1,068	198
3,422	
332,891	
	30,236
337,381	30,434
462,475	50,358
447,206	3,167
	42,389
412	
57,229	
78,667	
120,781	
514,095	22,004
1,218,390	67,560
\$1,680,865	\$117,918

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2005

(dollars in thousands)

	Business-Type Activities--Enterprise Funds			
	College and University	Unemployment Compensation	Loan	Nonmajor Enterprise Funds
OPERATING REVENUES				
Assessments		\$137,583		
Licenses, Permits, and Fees	\$45,590		\$304	\$2
(net scholarship allowances of \$42,577)				
Student Fees Pledged for Revenue Bonds	131,669			
Sale of Goods and Services	20,235		4,932	213,266
Sale of Goods and Services Pledged for Revenue Bonds	66,414		926	
Grants and Contributions	183,605	5,104	10,622	
Other Income	9,304			56
Total Operating Revenues	456,817	142,687	16,784	213,324
OPERATING EXPENSES				
Personnel Costs	455,769			11,847
Services and Supplies	177,722		212	73,205
Benefits, Awards, and Premiums	45,260	142,862		69,593
Depreciation	44,619		137	847
Other Expenses	14,513		18	2,882
Total Operating Expenses	737,883	142,862	367	158,374
Operating Income (Loss)	(281,066)	(175)	16,417	54,950
NONOPERATING REVENUES (EXPENSES)				
Gifts and Grants	28,718			
Investment Income	14,037	6,243	2,346	380
Interest Expense	(14,865)		(287)	
Intergovernmental Distributions				(16,520)
Gain (Loss) on Sale of Capital Assets	(941)			(2)
Other Nonoperating Revenues (Expenses)	1,104	2		1
Total Nonoperating Revenues (Expenses)	28,053	6,245	2,059	(16,141)
Income (Loss) Before Contributions and Transfers	(253,013)	6,070	18,476	38,809
Capital Contributions	19,965			
Transfers In	268,559		31,300	
Transfers Out		(4,145)		(40,495)
Change in Net Assets	35,511	1,925	49,776	(1,686)
Total Net Assets - Beginning of Year	667,719	227,721	194,041	43,383
Total Net Assets - End of Year	\$703,230	\$229,646	\$243,817	\$41,697

Governmental Activities	
Total	Internal Service Funds
\$137,583	
45,896	\$48
131,669	
238,433	192,350
67,340	
199,331	42
9,360	417
829,612	192,857
467,616	11,511
251,139	15,269
257,715	149,213
45,603	1,183
17,413	2,291
1,039,486	179,467
(209,874)	13,390
28,718	
23,006	3,514
(15,152)	(56)
(16,520)	
(943)	(50)
1,107	48
20,216	3,456
(189,658)	16,846
19,965	
299,859	
(44,640)	(235)
85,526	16,611
1,132,864	50,949
\$1,218,390	\$67,560

State of Idaho

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(dollars in thousands)

	Business-Type	
	College and University	Unemployment Compensation
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Assessments		\$133,067
Receipts from Customers	\$256,348	
Receipts for Interfund Services		
Receipts from Grants and Contributions	180,928	5,104
Payments to Suppliers	(180,944)	
Payments to Employees	(453,986)	
Payments for Interfund Services		
Payments for Benefits, Awards, and Claims	(50,420)	(141,060)
Other Receipts (Payments)	(2,870)	
Net Cash Provided (Used) by Operating Activities	(250,944)	(2,889)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts, Grants, and Endowments Received	31,107	
Intergovernmental Distributions		
Transfers In	268,559	
Transfers Out		(4,145)
Interest Paid		
Other Receipts (Payments)	450	
Net Cash Provided (Used) by Noncapital Financing Activities	300,116	(4,145)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Grants and Contributions	18,338	
Bonds Issued	23,877	
Payment of Bonds	(39,960)	
Capital Lease Payments		
Proceeds from Disposition of Capital Assets	18	2
Acquisition and Construction of Capital Assets	(54,184)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(51,911)	2
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest and Dividends	4,242	6,039
Purchase of Investments	(133,059)	
Redemption of Investments	119,160	185
Net Cash Provided (Used) by Investing Activities	(9,657)	6,224
Net Increase (Decrease) in Cash and Cash Equivalents	(12,396)	(808)
Beginning Cash, Cash Equivalents, and Cash Equity with Treasurer, as Restated	110,132	106,367
Ending Cash, Cash Equivalents, and Cash with Treasurer	\$97,736	\$105,559
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	(\$281,066)	(\$175)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	44,619	
Maintenance Costs Paid by Dept. of Public Works	766	
Net Changes in Assets and Liabilities:		
Accounts Receivable/Interfund Receivables	(14,781)	(4,517)
Inventories and Prepaid Items	349	
Notes Receivable	4,116	
Other Current Assets	(2,823)	
Accounts Payable/Interfund Payables	838	1,803
Unearned Revenue	(2,956)	
Compensated Absences		
Policy Claim Liabilities		
Other Accrued Liabilities	(6)	
Net Cash Provided (Used) by Operating Activities	(250,944)	(2,889)

Noncash Transactions (dollars in thousands): Investments increased in fair value by \$8,121 for colleges, \$293 for Unemployment Compensation, and \$110 for internal service funds. Capital assets were donated to colleges in the amount of \$94 and were disposed at a loss of \$941 for colleges, \$2 for nonmajor enterprise funds, and \$50 for internal service funds. Capital assets were acquired by capital lease in the amount of \$31 for colleges and \$636 for internal service funds. Capital assets were acquired by notes payable in the amount of \$6,566 for the Loan fund.

The accompanying notes are an integral part of the financial statements.

Activities--Enterprise Funds			Governmental Activities
Loan	Nonmajor Enterprise Funds	Total	Internal Service Funds
		\$133,067	
\$19,982	\$214,260	490,590	\$432
506	9	515	193,445
10,873		196,905	33
(21,282)	(73,916)	(276,142)	(17,202)
	(11,621)	(465,607)	(11,518)
(13)	(177)	(190)	(2,274)
	(67,992)	(259,472)	(147,123)
(39)		(2,909)	225
10,027	60,563	(183,243)	16,018
		31,107	
	(16,590)	(16,590)	
31,300		299,859	
	(40,495)	(44,640)	(235)
(340)		(340)	(56)
		450	
30,960	(57,085)	269,846	(291)
		18,338	
		23,877	
(46)		(40,006)	
	(50)	(50)	(641)
	1	21	48
(16,007)	(585)	(70,776)	(870)
(16,053)	(634)	(68,596)	(1,463)
2,345	380	13,006	3,434
		(133,059)	(1,302)
		119,345	861
2,345	380	(708)	2,993
27,279	3,224	17,299	17,257
83,840	34,955	335,294	60,437
\$111,119	\$38,179	\$352,593	\$77,694
\$16,417	\$54,950	(\$209,874)	\$13,390
137	847	45,603	1,182
		766	
	947	(18,351)	481
	1,027	1,376	(1,622)
(5,510)		(1,394)	
(975)	270	(3,528)	(262)
11	1,070	3,722	1
	(2)	(2,958)	864
	50	50	(1)
	1,601	1,601	2,088
(53)	(197)	(256)	(103)
\$10,027	\$60,563	(\$183,243)	\$16,018

*State of Idaho***Statement of Fiduciary Net Assets****Fiduciary Funds****June 30, 2005***(dollars in thousands)*

	Pension Trust	Investment Trust	College Savings Private-Purpose Trust	Agency
ASSETS				
Cash with Treasurer	\$3,521	\$257,924		\$8,714
Cash and Cash Equivalents	1,041	3,647	\$74	6,281
Investments:				
Pooled Short Term	512,185	97,167	3,907	
Fixed Income Investments	2,253,963	172,643		167,323
Marketable Securities	5,625,917			
Mutual Funds and Private Equities	388,200		53,379	
Mortgages and Real Estate	339,285	615,146		
Other Investments			11,828	6,827
Securities Lending Collateral		701,756		
Receivables:				
Investments Sold	819,111		1	
Contributions	5,330			
Interest and Dividends	36,681	8,297	9	9,149
Interfund Receivables	1,294			
Other Receivables	128		32	
Other Assets	27,754			
Capital Assets, Net	3,517			
Total Assets	10,017,927	1,856,580	69,230	198,294
LIABILITIES				
Accounts Payable	116		38	
Interfund Payables	1,294			
Due to Other Entities				1,471
Amounts Held in Trust for Others				194,855
Obligations Under Securities Lending		701,756		
Investments Purchased	1,139,739		25	
Other Accrued Liabilities	7,488	241		1,968
Total Liabilities	1,148,637	701,997	63	\$198,294
NET ASSETS				
Held in Trust for:				
Employee Pension Benefits	8,685,837			
Postemployment Healthcare Benefits	183,453			
External Investment Pool Participants		1,154,583		
Trust Beneficiaries			69,167	
Total Net Assets	\$8,869,290	\$1,154,583	\$69,167	

The accompanying notes are an integral part of the financial statements.

State of Idaho**Statement of Changes in Fiduciary Net Assets****Fiduciary Funds****For the Fiscal Year Ended June 30, 2005***(dollars in thousands)*

	Pension Trust	Investment Trust	College Savings Private- Purpose Trust
ADDITIONS			
Contributions:			
Member	\$167,460		
Employer	264,427		
Transfers In from Other Plans	8,276		
Participant Deposits		\$3,164,698	\$23,414
Total Contributions	440,163	3,164,698	23,414
Investment Income:			
Net Increase (Decrease) in Fair Value of Investments	622,099	(133,228)	2,181
Interest, Dividends, and Other	235,133	38,762	2,295
Securities Lending Income		1,019	
Less Investment Expense:			
Investment Activity Expense	(33,881)	(377)	
Securities Lending Expense		(306)	
Net Investment Income	823,351	(94,130)	4,476
Miscellaneous Income	1,687		
Total Additions	1,265,201	3,070,568	27,890
DEDUCTIONS			
Benefits and Refunds Paid to Plan Members	389,881		
Transfers Out to Other Plans	3,458		
Administrative Expense	7,228		330
Earnings Distribution		28,419	
Participant Withdrawals		3,280,963	5,561
Total Deductions	400,567	3,309,382	5,891
Change in Net Assets Held in Trust for:			
Employee Pension Benefits	846,119		
Employee Postemployment Healthcare Benefits	18,515		
External Investment Pool Participants		(238,814)	
Trust Beneficiaries			21,999
Net Assets - Beginning of Year	8,004,656	1,393,397	47,168
Net Assets - End of Year	\$8,869,290	\$1,154,583	\$69,167

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

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**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Idaho have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting principles.

In March 2003 the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement enables readers to better determine the potential for risks associated with investments and deposits. The State implemented this Statement during the fiscal year ended June 30, 2005.

In May 2004 the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This Statement provides financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements to assess the government's economic condition. The State implemented this Statement during the fiscal year ended June 30, 2005.

In December 2004 the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement is intended to enhance the usefulness and comparability of net asset information reported by governments. The statement clarifies the meaning of the phrase legally enforceable as it applies to restrictions imposed on net asset use and specifies the accounting and financial reporting requirements for those restricted net assets. The State implemented this Statement during the fiscal year ended June 30, 2005.

The financial statements are presented as of and for the year ended June 30, 2005, except for the State Bar, the Idaho Dairy Products Commission (nonmajor special revenue fund), the Petroleum Clean Water Trust Fund and the Idaho Life and Health Insurance Guaranty Association (discretely presented component units), whose statements are as of and for the fiscal year ended December 31, 2004; and the Idaho Potato Commission (nonmajor special revenue fund) whose statements are as of and for the year ended August 31, 2005.

A. Reporting Entity

The State of Idaho is governed under the *Idaho Constitution* of 1890, as amended. The legislative power is vested in a 35-member Senate and a 70-member House of Representatives; executive power is vested in the Governor, Lieutenant Governor, Secretary of State, State Controller, State Treasurer, Attorney General and

Superintendent of Public Instruction; and the judicial power is vested in the Idaho Supreme Court, the Idaho Court of Appeals, and district courts.

For financial reporting purposes, the State of Idaho's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, agencies, boards, commissions, colleges and universities, and authorities that are considered an integral part of the State. The State also considered potential component units and affiliated organizations which are legally separate for which it is financially accountable and other organizations for which the nature and significance of their relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. As defined by GASB Statement No. 14, *The Financial Reporting Entity*, (as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*), financial accountability exists if either:

1. The State appoints a voting majority of the organization's governing board and the State is able to impose its will on the organization or a potential exists for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State; or,
2. The organization's resources or income are used entirely or almost entirely for the benefit of the State or the State has the ability to access a majority of the economic resources received or held by the organization, and the economic resources of the organization are material to the State.

Blended Component Unit

Blended component units are legally separate from the State but are so intertwined with the State that they are, in substance, the same as the State. The component units are reported as part of the State and blended into the appropriate funds.

The *Idaho State Building Authority* was created by *Idaho Code*, Section 67-6403, to finance and construct facilities, such as office buildings and parking garages, to be used and leased by the State. GASB Statement No. 14 requires the Idaho State Building Authority to be presented as a blended component unit because the Board is appointed by the Governor; the Authority relies on the State's leasing agreements, resulting in a significant financial benefit/burden relationship; and the

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

Authority provides services entirely to the State of Idaho. The Idaho State Building Authority is blended as a nonmajor special revenue fund.

Discretely Presented Component Units

Discretely presented component units are legally separate from the State but are financially accountable to the State, or their relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. These component units are reported in a separate column to emphasize that they are legally separate from the primary government.

The *Idaho Housing and Finance Association (IHFA)* was created by *Idaho Code*, Section 67-6202, for the purpose of building and rehabilitating residential housing for persons of low income and for facilitating the issuance of bonds or notes to finance projects for transportation infrastructure. The Governor appoints IHFA board members. The IHFA is authorized to enter into agreements with the Idaho Transportation Department (ITD) to facilitate transportation projects, including issuing bonds. The ITD is required to transfer funds to the IHFA for payment of any bonds or notes, creating a financial benefit/burden relationship. The IHFA is presented discretely as an enterprise fund.

The *College and University Foundation* fund includes the foundations of Boise State University, Eastern Idaho Technical College, Idaho State University, Lewis-Clark State College, and the University of Idaho. The foundations were established for the purpose of soliciting donations and to hold and manage invested donations for the primary benefit of the respective colleges and universities. The College and University Foundation fund is presented discretely as an enterprise fund.

The *Petroleum Clean Water Trust Fund (PCWTF)* was created by the Idaho Legislature in *Idaho Code*, Section 41-4905, to provide pollution liability insurance for eligible owners and operators of petroleum storage tanks. The PCWTF is subject to the direction and supervision of the manager of the State Insurance Fund. The State approves, and may modify, the PCWTF's annual budget and thereby has the ability to impose its will on the PCWTF. The PCWTF is presented discretely as an enterprise fund.

The *Life and Health Insurance Guaranty Association* is a nonprofit organization authorized by the *Idaho Life and Health Insurance Guaranty Association Act of 1977*, *Idaho Code*, Section 41-4306. The Act was passed to provide a mechanism for the payment of covered claims

under certain insurance policies when an insurer becomes insolvent. All insurance companies that sell direct and supplemental life, disability policies, and annuity contracts are required to be members of the Association as a condition of their authority to transact business in Idaho. Member insurers select the board members; however, the director of the Department of Insurance has veto power and may dismiss management at will. Insurers may offset assessments against their premium taxes (thereby reducing tax revenues to the State). This imposes a potential direct financial burden on the State. The Association is presented discretely as an enterprise fund.

Financial statements for the component units may be obtained as follows:

Idaho State Building Authority
960 Broadway, Suite 500
Boise, ID 83706

Idaho Housing and Finance Association
565 W. Myrtle
Boise, ID 83702

Boise State University Foundation, Inc.
Boise State University
Vice President for Finance and Administration
1910 University Drive
Boise, ID 83725-1200

Eastern Idaho Technical College Foundation, Inc.
Eastern Idaho Technical College
Business Services Division
1600 S 25th E
Idaho Falls, ID 83404-5788

Idaho State University Foundation, Inc.
Idaho State University
Financial Services
921 South 8th Avenue
Pocatello, ID 83209

Lewis-Clark State College Foundation, Inc.
Lewis-Clark State College
Controller's Office
500 8th Avenue
Lewiston, ID 83501

University of Idaho Foundation, Inc.
University of Idaho
Finance and Administration
P.O. Box 443168
Moscow, ID 83844-3168

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

Petroleum Clean Water Trust Fund
Department of Insurance
700 W. State Street, 3rd Floor
Boise, ID 83720

Idaho Life and Health Insurance Guaranty Association
8324 Northview, Suite 104
Boise, ID 83704

Related Organizations

Related organizations are organizations for which the State is not financially accountable (because it does not impose its will or have a financial benefit or burden relationship), although the State appoints a voting majority of the organization's board. The financial reports of these organizations are excluded from the State's financial statements.

The *State Insurance Fund* was created by *Idaho Code*, Section 72-901. The Governor appoints board members, but the State does not impose its will on the organization and no financial benefit/burden relationship exists. Therefore, the State Insurance Fund is considered a related organization of the State of Idaho.

The *Health Facilities Authority* (HFA) was created by *Idaho Code*, Section 39-1444. The Governor appoints board members, but the State does not impose its will on the organization and no significant financial benefit/burden relationship exists. Therefore, the HFA is considered a related organization of the State of Idaho.

B. Government-Wide and Fund Financial Statements

Government-Wide Statements

The Statement of Net Assets and Statement of Activities report information on nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Internal service funds are included with governmental activities in the government-wide statements and are included with the proprietary funds in the fund statements.

Statement of Net Assets

The Statement of Net Assets presents the State's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are displayed in the following three categories:

Invested in Capital Assets, Net of Related Debt, consists of capital assets net of accumulated depreciation and reduced by outstanding related debt.

Restricted Net Assets result when third parties, constitutional provisions, or enabling legislation impose constraints on net asset use. The State does not have a policy regarding the preferred first usage of unrestricted or restricted net assets. Expense allocation decisions are made on a program-by-program basis when both restricted and unrestricted net assets are available. Restricted net asset balances will fluctuate as related accounting transactions occur.

Unrestricted Net Assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets may have constraints or designations placed upon them by management, which can be unilaterally removed.

Statement of Activities

The Statement of Activities demonstrates the degree to which the direct expenses of governmental functions, business-type activities, and component units are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific governmental function, business-type activity, or component unit. Revenues are broken out by program and general designations. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, activity, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Program revenues display the extent to which programs are self-funded. The arithmetic difference between direct expenses and program revenue displays the net cost of the function to be financed from the State's general revenues. Taxes and other revenue sources that are not attributable to specific programs are shown as general revenues.

State agencies share the cost of some centralized services. These administrative overhead charges are reported as direct program expenses of each of the various functions. Certain indirect costs are paid by the general government function and are not allocated to the other governmental functions.

To better reflect the break-even emphasis of the internal service funds, the net income or loss from business

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

conducted with primary government customers is eliminated. Eliminations are made to the operating expenses or revenues of the participating functions.

Fund Statements

The financial activities of the State are recorded in individual funds to report the financial position and results of the operations of the State. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Reimbursements are eliminated in the financial statements to reduce the grossing-up effect of internal transactions. Reimbursements are repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements include federal grant pass-throughs from one state agency to another and the allocation of central human resource costs to all agencies.

Separate fund financial statements are presented for the governmental, proprietary, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. The emphasis in the fund statements is on major funds. Major governmental and business-type funds are reported as separate columns in the fund statements. The remaining governmental and business-type funds are considered to be nonmajor funds and are consolidated in a nonmajor funds column. The nonmajor funds are displayed individually in combining statements.

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for services that include general government, public safety and correction, health and human services, education (other than those reported in the college and university fund), economic development, and natural resources. The General Fund includes all financial resources of the general government except those required to be accounted for in another fund.

The *Health and Welfare* fund accounts for resources used for public assistance, medical care, foster care, and other relief for eligible citizens of Idaho.

The *Transportation* fund accounts for resources used for administration, construction, and maintenance of the state highway and aviation systems.

The *Public School* and *Pooled Endowment* funds account for land grants received from the federal government under the *Idaho Admissions Act* and the sale or lease of such lands.

The State reports the following major proprietary funds:

The *College and University* fund accounts for resources used by the State's system of higher education.

The *Unemployment Compensation* fund accounts for resources used to provide unemployment benefits to eligible unemployed workers.

The *Loan* fund accounts for loans to Idaho municipalities to make improvements to wastewater and drinking water systems.

Additionally, the State reports the following fund types:

Governmental Fund Types

Special revenue funds account for financial resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes.

Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used.

Proprietary Fund Types

Enterprise funds account for governmental operations that function in a manner similar to private business enterprises. The intent is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal service funds account for a variety of independent operations that provide goods or services to other state agencies or governmental units on a cost-reimbursement basis. Internal service fund activities of the State include property, liability, and other types of insurance; data processing services; and other general services such as facilities rentals.

Operating and nonoperating revenues and expenses are presented separately on the operating statements. Operating transactions occur if they directly result from the provision of goods or services to customers, or are otherwise directly related to the principal and usual activity of the fund. All other revenues and expenses are reported as nonoperating.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

Fiduciary Fund Types

Pension trust funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plans, and other postemployment benefits.

Investment trust funds account for the investments deposited by participants in the State's Local Government Investment Pool and Diversified Bond Fund.

Agency funds account for resources collected or held by the State, acting in a custodial capacity, for distribution to other governmental units or designated beneficiaries.

The *private-purpose trust fund* accounts for fiduciary activities of the State that are not appropriately accounted for as pension or investment trust funds. Idaho's private-purpose trust fund accounts for the activities of the IDEal Idaho College Savings Program; the principal and interest benefit individuals. Complete financial statements may be obtained by writing to IDEal College Savings Program, P.O. Box 55254, Boston, MA 02205-8675.

Reconciling Government-Wide Statements to the Fund Statements

The governmental fund statements include a reconciliation between the fund statements and the government-wide statements. Differences that make a reconciliation necessary include the two differing measurement focuses and bases of accounting between the statements and the inclusion of internal service funds with governmental activities on the government-wide statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual,

generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Significant revenue sources susceptible to accrual include sales tax, individual and corporate taxes, motor fuel taxes, and federal grants. Licenses, permits, fees, and other miscellaneous revenues, which are derived from an underlying transaction, are recognized when received since they are normally only measurable at that time. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded when paid.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires proprietary activities to apply all applicable GASB pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary activities may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The State has elected not to apply FASB pronouncements issued after November 30, 1989, for proprietary activities.

D. Assets and Liabilities

Cash with Treasurer

Cash balances of most funds are deposited with the State Treasurer's Office. Balances not required to meet immediate needs are pooled in an internal investment pool for short-term investment, which is reported as part of Cash with Treasurer. *Idaho Code*, Sections 67-1210 and 67-1210A, governs investment policies of the State Treasurer.

Cash and Cash Equivalents

Cash and Cash Equivalents consist of bank accounts; petty cash; cash in transit; money markets; FDIC insured nonnegotiable certificates of deposit; and short-term, highly-liquid investments with a maturity of three months or less from the purchase date.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

Investments

The State Treasurer's Office (STO) and other administrative bodies manage investments as determined by state law. The STO manages investments of state funds and funds of other qualified entities within the State in accordance with *Idaho Code*, Sections 67-1201 through 67-1222. See Note 2 for more information.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the State reports most investments at fair value based on published market prices and quotations from investment brokers. Investments held in lieu of surety deposits, which are not held for investment purposes, are carried at historical cost in the State's agency funds. Investments received as escheat property, which are not held for investment purposes and have no readily ascertainable fair value, are valued at \$1 per share and are presented in the General Fund. The external portions of the State's two external investment pools are reported as investment trust funds at fair value. Certain entities disclosed in Note 2 report money market investments and other highly liquid investments with a remaining maturity of one year or less at the time of purchase using amortized cost.

The Public Employee Retirement System of Idaho, the Judges' Retirement fund, and the Endowment funds are permitted to make investments in accordance with the *Idaho Uniform Prudent Investor Act*, Sections 68-501 through 68-514, of the *Idaho Code*.

Securities Lending Collateral

Security lending agreements are transfers of securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. Securities lending collateral is reported at fair market value. See Note 2 for more information.

Receivables, Net

Receivables in the General Fund consist primarily of sales and income taxes. Special revenue fund receivables consist primarily of public assistance and gas taxes. Proprietary fund receivables occur as part of the ordinary course of business. Fiduciary fund receivables consist primarily of investments sold in the pension trust funds. The receivables are disaggregated on the financial statements.

Internal Balances

Interfund receivables and payables consist of unpaid balances for goods and services provided by one fund to

another. Interfund goods and services provided are reported as revenues in seller funds and expenditures or expenses in purchaser funds. These balances are generally short-term receivables and payables. See Note 4 for interfund schedules and those receivables not expected to be collected within one year. Interfund receivables and payables balances and activity have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities, which are shown as Internal Balances.

Due from Other Entities

Due from other entities is comprised mainly of federal grant revenues receivable.

Inventories and Prepaid Items

Inventory consists of materials and supplies that will be consumed within a year. Governmental and proprietary fund-type inventories of supplies and materials are valued at cost, which approximates market, generally using the first-in, first-out method. The consumption method of inventory accounting is used. Prepaid expenses represent amounts paid in the current period for services that will benefit future periods. Prepaids are accounted for using the consumption method.

Other Assets

Other assets include interest receivable, assets in liquidation, and other miscellaneous items.

Capital Assets, Net

Capital assets include all infrastructure, land, buildings and improvements, construction in progress, historical art and collections, improvements other than buildings, machinery and equipment, and other capital assets. Assets with a cost of \$5,000 or more and a useful life of more than one year are capitalized. The costs of normal repairs and maintenance that do not add to the asset's utility or materially extend an asset's useful life are not capitalized. Interest expense related to capital asset construction is capitalized for business-type activities.

Capital assets are recorded at cost or estimated historical cost, if actual cost is not available. Revenue is recognized for donated capital assets, which are recorded at the estimated fair value at the date of donation. In cases where historical cost is not available, assets are valued using comparables indexed forward or backward with the consumer price index. Endowment land originally granted to the State by the federal government

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

is valued at one dollar per acre. For more information regarding endowment land, refer to donor-restricted investments in Note 2.

All capital assets, with the exception of roads, right-of-ways, land, construction in progress, historical art and collections, and certain intangible or amortized assets are depreciated.

For all depreciable major asset classes, depreciation is calculated on a straight-line basis over their estimated useful lives, as follows:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 50
Improvements Other Than Buildings	5 - 50
Machinery, Equipment, and Other	3 - 40
Bridges	75

Roads and right-of-ways are not depreciated but rather are accounted for under the modified approach. The modified approach recognizes that this class of infrastructure will be indefinitely maintained at a certain condition level and as such does not have a limited lifespan. Costs to maintain the roads at the set condition levels are expensed rather than capitalized, unless the road's service potential is increased or additions are made. The State's Transportation Department has the responsibility for determining and assessing the condition levels, maintaining the inventory of roads, and making annual estimates of costs to maintain the roads. Further information regarding infrastructure can be found in the Required Supplementary Information.

Historical art and collections are not capitalized unless those collections were already capitalized on June 30, 1999. Historical art and collections include historical artifacts, documents, rare books, paintings, portraits, State Capitol related artifacts, furnishings, films, statues, and monuments. Historical art and collections are on public display, preserved and protected, and are used in the furtherance of historical education or are involved in advancement of artistic or historical research. If sold, the proceeds are used to acquire other items for collection.

Payables

Payables in the General Fund consist primarily of short-term vendor obligations. Accounts payable in the special revenue funds relate primarily to public assistance—the largest being Medicaid. The largest enterprise fund payable is for the College and University fund, which is mostly comprised of vendor obligations. The Public Employee Retirement System of Idaho investment

purchases comprise the primary fiduciary fund payable. All fund types have generic vendor payables.

Unearned/Deferred Revenue

Unearned revenue is recognized when cash is received prior to being earned. In the governmental fund statements, deferred revenue includes unearned revenue in addition to revenue that is earned but not available.

Amounts Held in Trust for Others

Amounts held in trust for others consist of cash or other assets held for an individual or entity until certain conditions of an agreement are met, at which time the asset is generally returned to the owner. Occasionally, the owner may default on the conditions and the asset held in trust becomes the property of the State and revenue would be recorded at that time.

Obligations Under Securities Lending

Obligations under securities lending consists of the collateral that has been received from borrowers for lent securities. The State has an obligation to return the collateral when the borrower returns the securities to the State. See Note 2 for more information.

Other Accrued Liabilities

Other accrued liabilities primarily consist of interest payable, unclaimed property, and other accrued liabilities.

Long-Term Liabilities

Government-wide and proprietary financial statements report long-term obligations as liabilities, with the portion payable within twelve months designated separately from the portion payable in more than twelve months. Long-term liabilities include the following:

Capital Leases Payable consists of lease contracts that transfer substantially all of the benefits and risks of ownership of property to the State.

Compensated Absences Payable includes vacation and compensatory time earned by employees but not paid.

Bonds and Notes Payable consists of notes and bonds issued for the construction or acquisition of facilities and for funding various projects. Bond premiums and discounts, as well as issuance costs, are deferred

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

and amortized over the life of the loan. See Note 12 for further explanation.

Policy Claim Liabilities includes amounts for probable claims that have been incurred and the amount of the loss has been reasonably estimated.

Claims and Judgments are payables on behalf of the State and its agencies for various legal proceedings and claims.

Other Long-Term Liabilities consists mainly of a net pension obligation.

E. Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. The governmental fund equity is called fund balance, while the government-wide, proprietary, and fiduciary fund equity is called net assets. Reservations of fund balance and restricted net assets identify assets that are not available for appropriation for expenditure or are legally segregated for a specific future use.

F. Newly Issued Accounting Pronouncements

In November 2003 the GASB issued Statement No. 42, *Impairment of Capital Assets and Insurance Recovery*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. Management has not yet determined the impact this standard will have on the State's financial statements. The requirements of this

Statement are effective for the fiscal year ending June 30, 2006.

In June 2005 the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are terminated. Management has not yet determined the impact this standard will have on the State's financial statements. The requirements of this statement are effective for the fiscal year ending June 30, 2006.

In April 2004 the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes requirements for reporting postemployment benefits other than pensions and provides users with information to assess the funded status of the plan. Management has not yet determined the impact this standard will have on the State's financial statements. The requirements of this Statement are effective for the fiscal year ending June 30, 2007.

In June 2004 the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEBs). This statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities. Management has not yet determined the impact this standard will have on the State's financial statements. The requirements of this statement are effective for the fiscal year ending June 30, 2008.

NOTE 2. DEPOSITS AND INVESTMENTS

A. Deposits

Cash and cash equivalents are deposited with various financial institutions and are carried at cost. Legal provisions regarding deposits are found throughout *Idaho Code*, Title 67. The State Treasurer's Office (STO) acts as the State's bank, receiving and disbursing all monies except for the following: Petroleum Clean Water Trust Fund, the Idaho Life and Health Guaranty Association, Idaho Housing and Finance Association, and college and university foundations (discretely presented component units); the Idaho State Building Authority (blended component unit); endowment funds (permanent funds); the State Bar, Potato Commission, Dairy Products Commission, and Wheat Commission

(nonmajor special revenue funds); the State Lottery, some of the colleges and universities (enterprise funds), and the Public Employee Retirement System of Idaho (fiduciary fund). In accordance with *Idaho Code*, Section 67-1210, all idle cash deposited with the STO is invested in various types of investments. Interest received on investments from the Idle Fund is paid into the General Fund, unless Idaho statute requires allocation of interest to specific funds.

Custodial credit risk is the risk that in the event of a financial institution failure, the State's deposits may not be returned. The State's policy for managing custodial

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

credit risk can be found in *Idaho Code*, Section 67-2739. The STO designates which financial institutions are qualified as state depositories. The amount of state funds above the total covered by federal insurance that is deposited with a qualified institution may not exceed the total of that depository's capital and surplus. Every designated depository must file an annual affidavit showing the amount of the financial institution's capital stock and surplus.

Any one of the following circumstances exposes a deposit to custodial credit risk:

- Deposits are uninsured and uncollateralized.
- Deposits are uninsured and collateralized with securities held by the pledging financial institution.
- Deposits are uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but are not held in the State's name.

Deposit Balances and Custodial Credit Risk at June 30, 2005
(dollars in thousands)

	Carrying Value	Bank Value	Uninsured and Uncollateralized Deposits
Governmental and Business-Type Activity	\$1,193,690	\$1,227,130	\$11,732
Fiduciary Funds	281,202	314,104	3,974
Discretely Presented Component Units	69,023	69,024	13,626
Total	\$1,543,915	\$1,610,258	\$29,332

B. Investments

General Investment Policies

Idaho Code, Section 68-502, stipulates the standard to be followed by state investment personnel is the *Idaho Uniform Prudent Investor Act*. The primary focus of the Act is preservation of capital and avoidance of speculative transactions through exercise of reasonable care, skill, and caution. The goal is to provide a reasonable return while following specific objectives of various trusts. The Act may be expanded, restricted, eliminated, or altered by provisions of Idaho statute or a trust.

The STO invests idle moneys, other than the public endowment funds, in accordance with *Idaho Code*, Sections 67-1210, 67-1210A, and 67-2739. The STO Investment Division handles all short-term investing and outsources all long-term investing.

Some investments are made directly by an agency rather than by the STO. Only a few agencies are authorized to make such investments and then only for specific programs. All investments are valued in accordance with GASB Statement No. 31, as described in Note 1.

Types of Investments

Idaho Code, Section 67-1210, authorizes the Treasurer's Pooled Idle Fund and agencies with investment authority

to make direct investments in the following types of investments:

- U.S. government obligations, which pledge the full faith and credit of the U.S. government
- General obligation or revenue bonds of the State or any Idaho county, city, or taxing district
- Obligations issued under the Farm Credit Act of 1971, the Federal Home Loan Bank Board, the Federal National Mortgage Association, and the Federal Home Loan Bank
- Obligations of Idaho public corporations
- Repurchase agreements covered by any legal investment for the State
- Tax and revenue anticipation instruments of the State or Idaho taxing districts
- Time deposit and savings accounts in state depositories; state and federal loan associations, or state and federal credit unions within the boundaries of Idaho
- Revenue bonds of Idaho higher education institutions

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

- Money market funds whose portfolios consist of investments specified in this section must be denominated in U.S. dollars

Idaho Code, Section 67-1210A, authorizes the STO to enter into the following additional types of transactions:

- Prime banker's acceptances and prime commercial paper
- Sale and repurchase of call options on securities owned by the STO or the Local Government Investment Pool
- Securities lending agreements
- Corporate bonds, notes, and debentures of any U.S. company with at least an A rating by a nationally recognized statistical rating organization (NRSRO) such as Standard & Poor's or Moody's

The Endowment Fund Investment Board (EFIB) manages investment of Idaho's two permanent funds, the Public School Endowment fund and the Pooled Endowment fund. *Idaho Code*, Section 57-720, gives the EFIB the authority to formulate investment policies of the permanent endowment funds and earnings reserve funds. *Idaho Code*, Section 57-723, stipulates that the EFIB and its investment manager(s) are governed by the *Idaho Uniform Prudent Investor Act*. In addition to the investment types mentioned above, the EFIB has approved the following types of investments:

- Preferred stock
- International equities
- Collateralized mortgage obligations
- Fixed income securities with a minimum Baa rating by Moody's or equivalent rating, Yankee bonds with a minimum A rating, equity-linked debt with a minimum rating of A, pass-through mortgage backed securities with a minimum Aaa or equivalent rating
- Derivative instruments, specifically covered call options
- Forward currency contracts
- Forward and futures contracts to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed upon price

The Retirement Board of the Public Employee Retirement System of Idaho (PERSI) has established an investment policy in accordance with *Idaho Code*, Sections 59-1301 through 59-1399. In addition to the investments mentioned above for the STO and the EFIB, PERSI has approved the following types of investments:

- Treasury inflation protected securities
- Derivative instruments, specifically, futures, options, swaps, repurchase agreements and forward currency contracts by a few selected managers

Investments at June 30, 2005
(dollars in thousands)

	Governmental Activities	Business- Type Activities	Fiduciary Funds	Total
Investments	\$966,583	\$177,817	\$10,247,770	\$11,392,170
Restricted Investments	20,968	26,081		47,049
Total Investments	\$987,551	\$203,898	\$10,247,770	\$11,439,219

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

Custodial Credit Risk of Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2005, the Judge's Retirement fund (fiduciary fund) had \$4.1 million federal agency securities, \$10.8 million corporate bonds, and \$38.0 million equity securities held by the broker-dealer (counterparty), not in the fund's name. The fund's investment policy does not contain legal or policy requirements that would limit exposure to custodial credit risk.

The PERSI investment policy mitigates custodial credit risk, to the extent possible, by requiring that investments be registered in the name of PERSI and be delivered to a third party custodian. Short-term investments are created through daily sweeps of excess cash. At June 30, 2005, PERSI had various short-term investments created by daily sweeps of excess cash of \$14.0 million held by various counterparties, not in the name of PERSI.

Interest Rate Risk

Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. The State has not adopted a formal policy that addresses

interest rate risk. All investment managers are governed by the *Uniform Prudent Investor Act* as detailed in *Idaho Code*, Sections 68-501 through 68-514. The EFIB and PERSI have adopted policies to address interest rate risk as follows:

- EFIB has adopted the policy that the fixed income weighted average of the EFIB portfolio may not exceed that of the Lehman Aggregate Index by more than one-half year.
- PERSI manages interest rate risk using the effective duration methodology, which takes into account the options on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the PERSI portfolios are managed in accordance with operational guidelines, which include an expected range of interest rate risk in the portfolio. Per the PERSI policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager. The reporting of effective duration found in the schedule following Primary Government and Endowment Funds quantifies the interest rate risk of the PERSI fixed income assets.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Primary Government Investments at June 30, 2005 (Except Endowment Funds and PERS I)

(dollars in thousands)

Investment Type	Less than 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	21-30 Years	Total Fair Value
Debt Securities:							
Money Market Funds	\$527,010						\$527,010
Repurchase Agreements	97,167	\$30,189					127,356
Commercial Paper	157,274	580	\$674				158,528
U.S. Government Obligations	181,524	56,333	7,652	\$128			245,637
U.S. Gov't Agency Obligations	472,027	391,870	7,404	10,224			881,525
Mortgage-Backed Securities*	1,615	65,496	16,236			\$671	84,018
Commercial Mortgages		1,071	2,281				3,352
Corporate Obligations	78,026	86,360	16,865	3,573			184,824
Municipal and Public Entity Obligations	4,200		63				4,263
Mutual Funds and Other Pooled Fixed Income Securit	586	6,628	6,024	6,356	\$844	460	20,898
External Investment Pool		209,448					209,448
Total Debt Securities	\$1,519,429	\$847,975	\$57,199	\$20,281	\$844	\$1,131	2,446,859
Other Investments:							
Equity Mutual Funds							35,517
Preferred Stock							29,725
Equity Securities							39,636
Investment Agreement							11,828
Reconciling Items:							
Public School Endowment and Pooled Endowment Investments Reported Separately Below							836,378
PERSI Investments (Part of Fiduciary Funds) Reported Separately Below							9,066,561
Less Idle Pool Cash Equivalents Included with Investments for Note Disclosure Purposes							(498,960)
Less Cash Equivalents Included With Investments for Note Disclosure Purposes							(528,325)
Primary Government and Fiduciary Funds Investment Per Financial Statements							\$11,439,219

Cash collateral received for securities lending transactions is reinvested for less than one year.

* Mortgage-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

Endowment Funds Interest Rate Risk at June 30, 2005

(dollars in thousands)

Investment Type	Fair Value	Modified Duration In Years
Debt Securities:		
Northern Lehman Aggregate Index Fund	\$211,391	4.15
Northern U.S. TIPS Index Fund	26,039	6.26
Total Endowment Fund Debt Securities	237,430	
Other Investments:		
Equity Investments	598,948	
Total Other Endowment Fund Investments	598,948	
Total Endowment Fund Investments Reported on the Financial Statements	\$836,378	

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

PERSI Effective Duration of Fixed Income Assets by Security Type at June 30, 2005

(dollars in thousands)

Investment Type	Domestic Securities		International Securities		Total Fair Value
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years	
Debt Securities:					
Asset-Backed Securities	\$17,307	1.83			\$17,307
Asset-Backed Securities	391	*			391
Commercial Paper	49,125	0.12	\$13,819	0.03	62,944
Commercial Paper	219,583	*	21,822	*	241,405
Corporate Bonds	390,512	4.62	63,697	3.35	454,209
Corporate Bonds	909	*	100	*	1,009
Fixed Income Derivatives	(533)	*			(533)
Government Agencies	123,506	3.30			123,506
Government Bonds	408,906	5.43	13,386	4.74	422,292
Government Mortgage-Backed Securities	446,128	2.31			446,128
Pooled Investments	169,607	*			169,607
Preferred Stock	2,503	2.22			2,503
Preferred Stock	8,165	*			8,165
Private Placements	24,245	3.63			24,245
Private Placements	1,110	*			1,110
Repurchase Agreements	62,108	*			62,108
TIPS	701,714	7.73			701,714
Total PERSI Fixed Income Securities	<u>\$2,625,286</u>		<u>\$112,824</u>		<u>2,738,110</u>
Other Investments:					
Domestic Equities					3,643,594
International Equities					1,834,994
Short-Term Investments					14,005
Real Estate					79,337
Private Equity					211,349
Mutual Funds (PERSI Choice Plan)					176,852
Co-Mingled Equity Fund (Sick Leave Insurance Reserve Fund)					109,282
Total PERSI Other Investments					<u>6,069,413</u>
Reconciling Items:					
401(k) Total Return Fund Adjustment					(44,033)
Preferred Convertible Stock					(15,064)
Short Sale Liability					57,485
Idaho Commercial Mortgages					259,948
Other					702
Total Reconciling Items					<u>259,038</u>
Total PERSI Investments Reported on the Financial Statements					<u>\$9,066,561</u>

* Duration calculations for some securities are not readily available due to the nature of those securities. Examples include securities that are not publicly traded or that are thinly traded, securities with a short maturity, and those that have expired.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Component Units Maturity of Debt Investments at June 30, 2005

(dollars in thousands)

Investment Type	Less than 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	Total Fair Value
Debt Securities						
Money Market Funds	\$165,511	\$200				\$165,711
U.S. Government Obligations	4,331	26,556	\$1,606	\$32,664	\$16	65,173
U.S. Government Agency Obligations	7,475	39,639	19,765	70,424		137,303
Corporate Obligations	6,008	24,984	6,747	12,743	1,036	51,518
Municipal and Public						
University Obligations	50	194				244
Bond Mutual Funds	67	16,358	9,182	2,010		27,617
Total Debt Securities	\$183,442	\$107,931	\$37,300	\$117,841	\$1,052	447,566
Other Investments						
Investments Held in Trusts						3,650
Preferred Stock						25,931
Equity Mutual Funds						52,964
Domestic Equities						104,303
Foreign Equities						266
Investment Agreement						113,229
Insurance Annuity						319
Less Cash Equivalents Included With Investments for Note Disclosure Purposes						(154)
Total Component Unit Investments Reported on Financial Statements						\$748,074

Credit Risk of Debt Securities

The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a NRSRO. Investments explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality ratings. Unless otherwise stated, the ratings presented below use the Moody's scale. Although the STO does not have a formal policy to address credit risk of debt securities, all investment managers are governed by the *Uniformed Prudent Investor Act* as detailed in *Idaho Code*, Sections 68-501 through 68-514. The following Boards have formally adopted policies that address credit quality ratings of debt securities:

- The Building Authority investments are restricted by terms of individual revenue bonds. All Building Authority holdings are in accordance with those restrictions.
- The State Board of Education policy allows colleges and universities to invest in debt securities with an Aa or better rating and commercial paper of prime

or equivalent grade. Investments in any other form require prior Board of Education approval.

- In accordance with the *Idaho Code*, Section 1-2008, the EFIB formulates the investment policy for the Judges' Retirement fund. The Judges' Retirement fund policy allows fixed income securities with a minimum Baa rating by Moody's (or equivalent rating by other NRSRO), Yankee bonds, commercial paper, equity-linked debt with a minimum A rating, pass-through mortgage-backed securities with a minimum Aaa rating or equivalent, and collateralized mortgage obligations.
- The EFIB investment policy states that bonds must be rated Baa (or the equivalent) or better, commercial paper must be rated A-1 (or the equivalent) or better, and money market funds shall contain securities with an absolute minimum of investment grade by Standards and Poor's or Moody's.
- PERSI has no strict limitations for credit risk exposures. Each PERSI portfolio is managed in

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

accordance with operational guidelines that are specific as to expected portfolio characteristics that usually, but not always, include credit quality and exposure levels. Per the PERSI policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager.

- Idaho Housing and Finance Association policies permit investments for each bond issue in accordance with the various bond indentures and bond resolutions adopted by the Association.

Program account investments are restricted to those empowered by the Act or by federal regulations. The Association has adopted resolutions as policy for authorized investments in the Affordable Housing Investment Trust and the Bond Rating Compliance and Loan Guaranty Trust. The Board has not adopted a formal policy related to the Association's business operations investments.

- The Idaho State University Foundation policy requires all bonds purchased to have an A rating or better.

Primary Government Rated Debt Investments at June 30, 2005
(Except Endowment Funds and PERS I)
(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Baa	A1-P1	Unrated
Money Market Funds*	\$527,010	\$485,010					\$42,000
Repurchase Agreements	127,356	97,167	\$30,189				
Commercial Paper**	158,528	133,356	271	\$404		\$24,497	
U.S. Gov't Agency Obligations	881,525	881,524					1
Mortgage-Backed Securities	84,018	83,347					671
Commercial Mortgages	3,352	3,352					
Corporate Obligations	214,548	70,103	29,625	88,962	\$25,858		
Municipal and Public Entity Obligations	4,263	63					4,200
Mutual Funds and Other Pooled							
Fixed-Income Securities	24,671		745				23,926
External Investment Pool	209,448						209,448
Totals Before Securities Lending:	2,234,719	1,753,922	60,830	89,366	25,858	24,497	280,246
Reinvestment of Securities Lending Collateral:							
U.S. Government Agencies	66,198	66,198					
Repurchase Agreements	731,038			370,911			360,127
Mortgage-Backed Securities	29,615	29,615					
Money Market Funds	747	747					
Corporate Obligations	514,480	145,069	173,801	195,610			
Totals	\$3,576,797	\$1,995,551	\$234,631	\$655,887	\$25,858	\$24,497	\$640,373

*Includes \$505,644 of money market funds that are reported with cash and cash equivalents.

**Includes \$24,697 of commercial paper that is reported with cash and cash equivalents.

Endowment Funds
Credit Quality Rating at June 30, 2005
(dollars in thousands)

Investment Type	Fair Value	S & P Rating
Northern Lehman Aggregate Index Fund	\$211,391	AA
Northern U.S. TIPS Index Fund	26,039	AAA
Northern Money Market Fund*	2,939	A
Total	\$240,369	

*Reported with cash and cash equivalents.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

PERSI Rated Fixed Income Securities at June 30, 2005
(dollars in thousands)

Credit Quality Rating (S & P Rating Level)	Fair Value	Investment Type	
		Domestic Securities	International Securities
Agency (A-1+)	\$1,216	\$1,216	
AAA	642,410	616,512	\$25,898
AA	55,873	50,071	5,802
A	173,079	173,079	
BBB	113,624	108,743	4,881
BB	20,141	20,052	89
B	14,163	14,163	
CCC	10,013	10,013	
Not Rated	429,584	353,430	76,154
Totals	\$1,460,103	\$1,347,279	\$112,824

Component Units Rated Debt Securities at June 30, 2005
(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Baa	Ba	B	Caa	Unrated
Money Market Funds	\$165,711								\$165,711
U.S. Government									
Agency Obligations	130,231	\$129,519							712
Corporate Obligations	77,449	8,992	\$10,751	\$21,261	\$15,337	\$1,814		\$863	18,431
Municipal and Public									
University Obligation	244	244							
Bond Mutual Funds	27,617	10,794	14,054	1,149	1,228	7	\$3		382
Totals	\$401,252	\$149,549	\$24,805	\$22,410	\$16,565	\$1,821	\$3	\$863	\$185,236

*Includes \$153 of money market funds that are reported with cash and cash equivalents.

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5 percent of the total government investments are concentrated in any one issuer. Investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. State statute places no limit on the amount that may be invested in any one issuer.

The College Savings Private Purpose Trust Fund has an investment agreement with TIAA-CREF valued at \$11.8 million which represents 17.1 percent of the Trust's total portfolio.

The University of Idaho Foundation policy exempts investments in U.S. government agency obligations from concentration risk.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

Component Unit Concentration of Credit Risk at June 30, 2005
(dollars in thousands)

Component Unit	Issuer	Fair Value	Percent of Portfolio Investments
College and University Foundations:			
	Federal National Mortgage Association	\$8,975	9.56
	Federal Home Loan Bank	9,072	9.67
Idaho Housing and Finance Association:			
	Pallas Capital Corporation	27,319	6.25
	Trinity Plus Funding	47,453	10.85
	Federated Treasury Obligation Funds	127,513	29.15
	Federal National Mortgage Assoc.	25,283	5.78
Idaho Life and Health Insurance Guaranty:			
	Federal Home Loan Mortgage Corp.	4,167	52.64
	Federal National Mortgage Assoc.	1,821	23.00

Foreign Currency Denominated Investments

Investments denominated in foreign currencies face a potential risk of loss in fair value from changes in currency exchange rates. The EFIB, PERSI, and Lewis-Clark State College Foundation have adopted policies related to the potential risk from changes in foreign currency exchange rates for investments denominated in a foreign currency as follows:

- The Judges' Retirement fund investment policy permits investing up to 20 percent of the fund's total investments in international equities. No foreign fixed income securities are permitted except currency.
- The EFIB Investment Policy Statement permits investing up to 20 percent of the EFIB total investments in international equities. No foreign

fixed income securities are permitted except currency.

- The PERSI investment policy provides individual manager guidelines at a minimum range of currency exposure. Each portfolio is monitored for currency exposure. Managers are required to report variances.
- The Lewis-Clark State College Foundation investment policy permits investments in foreign equities. The policy limits the investments in international equities to no more than 15 percent of the foundation's total investment portfolio.

Judges' Retirement Fund Foreign Currency Risk at June 30, 2005
(dollars in thousands)

Currency	Investment Type	Fair Value in U.S. Dollars
Australian Dollar	Equities	\$214
British Pound Sterling	Equities	1,062
Canadian Dollar	Equities	119
Euro	Equities	1,538
Hong Kong Dollar	Equities	218
Japanese Yen	Equities	2,388
South African Rand	Equities	85
Swiss Francs	Equities	130
Total		\$5,754

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

Endowment Funds Foreign Currency Risk at June 30, 2005
(dollars in thousands)

Currency	Investment Type	Fair Value in U.S. Dollars
Australian Dollar	Common Stock	\$6,214
British Pound Sterling	Common Stock	16,090
Canadian Dollar	Common Stock	2,186
Danish Krone	Common Stock	603
Euro	Common Stock	35,458
Hong Kong Dollar	Common Stock	2,260
Japanese Yen	Common Stock	26,692
Norwegian Krone	Common Stock	2,671
Singapore Dollar	Common Stock	837
South African Rand	Common Stock	698
South Korean Won	Common Stock	717
Swedish Krona	Common Stock	2,453
Swiss Franc	Common Stock	4,680
Total		\$101,559

PERSI Foreign Currency Risk at June 30, 2005
(stated at fair value of U.S. dollars in thousands)

Currency	Investment Type			Fair Value of Currency in US Dollars
	Short-Term Investments	Equities	Fixed Income	
Australian Dollar	\$126	\$50,042	\$1,072	\$51,240
Botswana Pula		1,451		1,451
Brazil Real	961	23,327		24,288
British Pound Sterling	(991)	310,704	(43,218)	266,495
Canadian Dollar	297	13,086	14,246	27,629
Czech Koruna	8			8
Danish Krone		14,478		14,478
Egyptian Pound	482	11,683		12,165
Euro	1,027	556,683	(5,614)	552,096
Hong Kong Dollar	186	61,467		61,653
Hungarian Forint	48	6,763		6,811
Indonesian Rupian	625	33,495		34,120
Israeli Shekel	485	8,602		9,087
Japanese Yen	5,443	338,694		344,137
Malaysian Ringgit	88	10,776		10,864
Mexican New Peso	5	15,836	21,484	37,325
New Taiwan Dollar	764	39,254		40,018
New Turkish Lira	264	21,635		21,899
New Zealand Dollar	76	4,172		4,248
Norwegian Krone	15	4,783		4,798
Philippines Peso	19	5,732		5,751
Polish Zloty			6,257	6,257
South African Rand	131	50,008		50,139
Singapore Dollar	648	23,759	6,084	30,491
South Korean Won	59	104,659		104,718
Swedish Krona	410	15,382		15,792
Swiss Franc	101	99,654		99,755
Thailand Baht	150	38,823		38,973
Zimbabwe Dollar		373		373
Totals	\$11,427	\$1,865,321	\$311	\$1,877,059

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

LCSC Foundation Foreign Currency Risk at June 30, 2005

(dollars in thousands)

Currency	Investment Type	Fair Value in U.S. Dollars
Australian Dollar	Equities	\$18,636
British Pound Sterling	Equities	47,814
Canadian Dollar	Equities	12,604
Euro	Equities	50,145
Hong Kong Dollar	Equities	12,763
Indian Rupee	Equities	4,290
Japanese Yen	Equities	16,094
Mexican Peso	Equities	31,423
Norwegian Krone	Equities	11,730
Phillipine Peso	Equities	8,860
South Korean Won	Equities	5,243
South African Rand	Equities	5,935
Swedish Krona	Equities	13,140
Swiss Franc	Equities	27,606
Total		\$266,283

Debt Investments with Terms That May Cause the Fair Value to Be Highly Sensitive To Interest Rate Changes

Mortgage-Backed Securities have a return based on the cash flows from interest and principal payments on the underlying mortgages. As a result, they are sensitive to prepayments, which are likely to occur in declining interest rate environments. To the extent possible, this prepayment risk is reflected in the interest rate risk of the portfolios by using the weighted average method to calculate interest rate risk for long-term investments and the modified duration method used by EFIB and PERSI.

Treasury Inflation Protected Securities (TIPS) are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2005, PERSI had investments in TIPS with a fair value of \$701.7 million.

At June 30, 2005, the STO Idle Pool portfolio included the following debt investments with terms that may cause their fair values to be highly sensitive to interest rate changes:

- Corporate obligations valued at \$20.1 million with a floating rate coupon that resets every quarter to the U.S. LIBOR (the rate that non-U.S. banks pay to borrow U.S. dollars) plus basis points
- One Federal Home Loan Bank obligation valued at \$10.2 million with a floating rate coupon that resets

every quarter to the 2-year constant maturity rate plus basis points

- U.S. Agency obligations valued at \$35.0 million with call options.

The Local Government Investment Pool and Diversified Bond Fund have debt investments with terms that may cause the fair value to be sensitive to interest rate changes. See Note 3, External Investment Pools, for details.

Repurchase Agreements

Repurchase agreements are purchases of securities with simultaneous agreements to resell those same securities in the future at the same price plus a contract rate of interest. These investments are made throughout the year for short periods and fixed terms. At June 30, 2005, PERSI had credit exposure of \$62.1 million that is included with short-term investments.

Securities Lending Agreements

Security lending agreements are transfers of securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. *Idaho Code*, Section 67-1210A, authorizes the STO to engage in securities lending agreements. The

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

STO securities custodian manages the securities lending program. During the year, the custodian lent securities of the types shown in the table below for cash collateral. The investments are collateralized at 102 percent of the fair value of securities lent. The securities lending agreement requires daily monitoring of the fair value of securities lent and collateral received with additional collateral obtained as necessary to meet margin requirements. There are no restrictions on the amount of loans that can be made. Either the State or the borrower

can cancel all securities lent upon demand. The cash collateral received is invested by the custodian and held in a separate account in the name of the STO. Cash is reinvested with terms equally matching the actual securities lent. The STO is indemnified for loss due to default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans. At year-end, the Idle Pool had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed.

Primary Government
Balances of Securities Lending Transactions at June 30, 2005
(dollars in thousands)

Securities Lent for Cash Collateral	Carrying Value of Lent Securities	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
U.S. Treasury Obligations	\$64,721	\$65,552	\$66,799
U.S. Government Agency Obligations	406,192	406,710	414,532
Mortgage Backed Securities	175,914	173,179	177,174
Corporate Debt Instruments	35,444	35,784	36,646
Totals	\$682,271	\$681,225	\$695,151

These amounts reflect the entire Idle Pool securities lending activity, which includes the Diversified Bond Fund that is disclosed in Note 3. The internal portion of these securities lending balances will be reported in the General Fund and the external portion of the Diversified Bond Fund is reported in the investment trust funds.

The EFIB engages in securities lending agreements that specify the borrower will pay a stated premium to the EFIB that is remitted monthly. The EFIB custodian, Northern Trust Company, lends U.S. government securities, U.S. agency obligations, and equities for collateral in the form of cash or other collateral with at least 102 percent of the lent securities' fair value. The securities lending agreement requires a daily monitoring of the market value of the securities loaned and collateral received with additional collateral obtained as necessary to meet margin requirements. The EFIB is indemnified should borrowers fail to return the securities and for fraudulent or negligent acts performed by Northern Trust Company. As such, credit risk exposure is limited under these transactions. As of June 30, 2005, the market value of the loaned securities was \$90.9 million.

Derivatives

Derivatives are financial obligations whose value is derived from underlying debt or equity securities, commodities, or currencies. Derivatives are designed, among other things, to help investors protect themselves against the risk of price changes.

Boise State University invests in interest-only U.S. Treasury strips to maximize yields. These investments are based on cash flows from interest payments on underlying U.S. Treasury Securities. The underlying securities are guaranteed by the U.S. government and do not present the same level of risk as do other forms of derivatives.

The Building Authority established a forward interest rate swap contract with Lehman Brothers Financial Products, Inc., on the 1998 Prison Project (1998 Series A Bonds). This forward interest rate contract can be terminated by the Authority at any time from origination on September 19, 2003, to the effective date of June 3, 2008. In addition, the contract can also be terminated after the effective date of June 3, 2008, to the expiration date of September 1, 2025. The Authority executed this forward interest rate contract to a specified proposed refunding provided that the savings ratio achieved is not less than 3 percent, regardless of whether or not the contract is terminated at or prior to its implementation date, no later than September 1, 2008. The Authority intends to terminate the forward interest rate contract any time before the termination date if the termination

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

payment to be received by the Authority equals or exceeds two times the present value savings for the bonds for which such contract was executed. If the forward interest rate contract is not earlier terminated, the Authority's intention is to terminate such contract by the implementation date in order to preserve the present value savings and to avoid unnecessary basis risk to the Authority. The contract is in a liability position of \$3.9 million at June 30, 2005. The position is determined by the difference between a fixed 4.3 percent and 67 percent of the LIBOR rate at the first of the month (3 percent at June 30, 2005). The swap agreement is characterized as a derivative and is carried on the Statement of Net Assets as Other Liabilities at fair value with changes in that value recognized in earnings of the current period. The impact on other liabilities as of June 30, 2005, was an aggregate amount of \$4.0 million.

The EFIB periodically invests in forward and futures contracts representing agreements to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed-upon price. The EFIB use of these securities is limited to small positions in the EFIB international and domestic equity portfolios established primarily for hedging or risk reduction. At June 30, 2005, the domestic equity portfolio held 14 Standard and Poor 500 contracts with a fair value of \$4.2 million and 92 ten-year Treasury contracts with a fair value of \$10.4 million. The mark-to market receivable as of that date was \$18,687 and was received on July 1, 2005.

The EFIB held forward currency contracts representing agreements to buy or sell European Union euro, British pound sterling, Norwegian krone, Swedish krona, U.S. dollar, Australian dollar, Swiss franc, Hong Kong dollar, and Japanese yen upon established future dates for agreed-upon prices. These forward currency contracts allow the EFIB to lock in future foreign exchange rates, thus reducing the risk stemming from currency fluctuations. At June 30, 2005, the fair values of the obligations under the purchase side of these forward contracts amounted to \$45.3 million and the fair values of the obligations under the sale side of the forward contracts amounted to \$45.0 million.

PERSI permits a few selected managers to use derivatives. In every case, the type of derivatives used and limits on their use are defined in manager contracts and are monitored on an ongoing basis. At June 30, 2005, PERSI reported the following derivative and hedging activity:

- Futures contracts with a fair value of \$100,264 that are included in Fixed Income Investments—cash

equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed. PERSI had the following futures contract exposure:

- (a) Cash and cash equivalents (Euro) of \$147,128
- (b) U.S. Treasury futures of \$26,219
- Option contracts that give PERSI the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time—options strategies used by PERSI are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations. At June 30, 2005, PERSI had option contracts payable with a fair value of \$535,744 that is included in the liabilities as investments purchased. At June 30, 2005, PERSI had the following option contracts exposure:
 - (a) Cash and cash equivalents, purchased call options of \$130,798
 - (b) Cash and cash equivalents, purchased put options of \$13,663
 - (c) Fixed income purchased call options of \$24,500
 - (d) Fixed income purchased put options of \$1,794
 - (e) Fixed income written call options of \$607,045
 - (f) Fixed income written put options of \$99,453
- Swap agreements—PERSI held swap agreements with a fair value of \$90,941 that have been included in Fixed Income Investments.
- Forward foreign currency exchange contracts—PERSI has agreed to purchase or sell currency at various dates in the future at a specific price. PERSI has established controls to monitor the creditworthiness of the counterparties. As of June 30, 2005, PERSI had sold forward currency contracts with a fair value of \$809.0 million and had bought forward currency contracts with a fair value of \$809.1 million. Purchases of forward currency contracts are liabilities reported as investments purchased, and sales of forward currency contracts are receivables reported as investments sold.

The Idaho Housing and Finance Association established interest swap contracts with Lehman Brothers Financial Products, Inc., on several single-family mortgage bond issues. The Association also issued variable rate debt in connection with the same bond issues. The swap agreements, when combined with the associated variable rate debt, create a synthetic fixed rate debt obligation. The swap agreements are carried on the Statement of Net Assets in Other Accrued Liabilities at fair value, with

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2005

changes in the value recognized in earnings of the current period. The impact on Other Accrued Liabilities as of June 30, 2005, was an aggregate amount of \$33.1 million.

Donor-Restricted Investments

Idaho's permanent endowments include the Public School Endowment and the Pooled Endowment funds. Both funds have a nonexpendable permanent corpus and an earnings reserve account, which is used to receive earnings and to pay beneficiaries and expenses. The EFIB invests the revenues generated from the management and/or sale of endowment lands in accordance with *Idaho Code*, Title 57, Chapter 7, which also governs the spending of net appreciation from these investments. At June 30, 2005, net appreciation of restricted investments was \$36.6 million and \$17.9 million for Public School Endowment fund and Pooled Endowment fund, respectively. Net appreciation of investments is reported as part of restricted net assets.

Idaho Public Television (IPTV) holds investments with a fair value of \$4.9 million in the form of cash and cash equivalents, commercial paper, U.S. government obligations, U.S. agency obligations, corporate debt instruments, and mutual funds. Investments are held in the name of the Friends Foundation. The principal amount with a fair value of \$2.6 million is to remain intact for donor-restricted purposes. The IPTV Foundation Board advises the amount of net appreciation that IPTV may spend. IPTV determines the purpose of the expenditures. At June 30, 2005, there was no net appreciation available for expenditure.

Departments of Fish and Game, Health and Welfare, and Parks and Recreation have been past recipients of donor-restricted endowments that total \$4.4 million, which are presented as part of restricted net assets. The funds did not receive any new donations during fiscal year 2005. No net appreciation was available for expenditure at June 30, 2005.

NOTE 3. EXTERNAL INVESTMENT POOLS

A. Overview of the External Investment Pools

Idaho Code, Sections 67-2327 and 67-2328, authorize the State Treasurer's Office (STO) to sponsor external investment pools, the Local Government Investment Pool (LGIP) and the Diversified Bond Fund (DBF). In order to earn a higher yield, Idaho governmental entities may voluntarily deposit monies not immediately needed to meet operating obligations in these pools. The LGIP is a short-term investment fund, participants have overnight availability to their funds, and the weighted average maturity of investments at June 30, 2005, was 414 days. The LGIP distributes earnings monthly to the participants based on their average daily balance as a percentage of the total pool. The LGIP provides participants with a net asset valuation factor that enables participants to convert their statement balances to fair value. STO created the DBF for those state and public agencies able to exchange current liquidity for potentially greater returns over the long run (2.5 years or longer). Withdrawals of 10 percent or less of the total fund generally require five working days' notification. Withdrawals of more than 10 percent of the total fund require 25 working days' notification.

STO must operate and invest the funds of both pools for the benefit of the participants. STO makes investments

in accordance with *Idaho Code*, Sections 67-1210 and 67-1210A. The pools are not registered with the Securities and Exchange Commission or any other regulatory body and are not rated. The STO does not provide any legally binding guarantees to support the value of shares to the participants. Each month STO transfers funds to cover administrative costs associated with the specific pool to the STO operating fund.

The LGIP and DBF are reported as fiduciary-type investment trust funds. The pools have not issued separate reports as external investment pools. The assets and liabilities in these notes will not agree to the amounts shown on the fiduciary fund financial statements because GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that only the external portion of investment pool assets be reported in those funds. The internal portion of pool assets is reported in the appropriate individual fund or component unit.

Investments were valued through a quoted market price at June 30, 2005. Investments are converted to fair value each month for financial reporting purposes. *Fair value* is the amount at which an investment could be

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

exchanged in a current transaction between willing parties, other than a forced liquidation sale. The State uses the aggregate method to determine the increase/decrease in fair value of each individual pool.

The LGIP and DBF engage in securities lending transactions. A securities custodian manages the securities lending program. During the year, the custodian lent U.S. Treasury obligations, U.S. government agency obligations, corporate debt instruments, and mortgage-backed securities for cash collateral. The cash collateral can be pledged without borrower default. The investments are collateralized at 102 percent of the market and restated to fair value on a daily basis. There are no restrictions on the amount of loans that can be made. Either the State or the borrower can cancel all securities lending agreements upon demand. The cash collateral received is invested by the custodian and held in a separate account in the name of the STO. Cash is only reinvested in instruments with terms equally matching the actual securities lent. The STO is indemnified for loss due to default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans. At year-end the STO had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. At year-end there was no custodial credit risk because the securities were held by the State's agent and not by the counterparty.

Statement No. 40 of the Governmental Accounting Standards Board (GASB), *Deposit and Investment Risk Disclosures*, requires pools to disclose certain risks that may be associated with their deposits and investments. Disclosures are made under each individual pool for the following required risk disclosures:

Credit risk associated with investments is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation. The risk is expressed in terms of the

credit quality rating issued by Moody's, a nationally recognized statistical rating organization. Obligations explicitly guaranteed by the U.S. government are not considered to have credit risk. The pools do not have a formally adopted policy to address credit risk associated with investments.

Concentration of credit risk results when investments are concentrated in one issuer and represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that when governments invest discretely on behalf of their various funds, such as the LGIP or DBF, they should disclose the amount and percentage when 5 percent of the total fund investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. State statute places no limit on the amount the pools may invest in any one issuer.

Interest rate risk occurs when investments are fixed for longer periods. Such investments are likely to experience greater variability in their fair values due to future changes in interest rates. Obligations explicitly guaranteed by the U.S. government are not considered to have interest rate risk. State statute places no limit on investment maturities.

Debt investments with terms that may cause the fair value to be highly sensitive to interest rate changes are likely to experience greater variability in their fair values due to the embedded terms. The Pools do not have a formally adopted policy to address terms that may cause the fair value of investments to be highly sensitive to interest rate risks.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

B. Local Government Investment Pool (LGIP)

**Local Government Investment Pool
Condensed Statement of Net Assets
June 30, 2005
(amounts in thousands)**

Assets	
Cash and Cash Equivalents	\$265,445
Investments, at Fair Value	844,726
Interest Receivable to the Pool	8,065
Securities Lending Collateral	666,546
Total Assets	1,784,782
Liabilities	
Obligations Under Securities Lending	666,546
Total Liabilities	666,546
Net Assets Held in Trust for Pool Participants	\$1,118,236
Net Assets Consist of:	
External Participant Units Outstanding (\$1.00 par)	\$1,086,554
Internal Participant Units Outstanding (\$1.00 par)	31,682
Net Assets Held in Trust for Pool Participants	\$1,118,236
Total Participant Units Outstanding (\$1.00 par)	1,121,309
Participant Net Asset Value, Offering Price, and Redemption Price Per Share (\$1,118,236 divided by 1,121,309 units)	\$1.00

**Local Government Investment Pool
Condensed Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005
(dollars in thousands)**

Investment Income	
Interest Income (at stated rate of interest)	\$36,798
Securities Lending Income (at stated rate of interest)	1,014
Net Increase (Decrease) in Fair Value of Investments	(132,585)
Total Investment Income	(94,773)
Expenses	
Administrative Fees	(\$224)
Securities Lending Fees	(304)
Total Investment Expenses	(528)
Net Investment Income (Net Decrease in Net Assets as a Result of Operations)	(95,301)
Distributions to Participants	
Distributions Paid and Payable	(26,472)
Share Transactions at Net Asset Value of \$1.00 per Share	
Pooled Participant Deposits	3,078,464
Pooled Participant Withdrawals	(3,261,837)
Net Increase (Decrease) in Net Assets and Shares Resulting From Share Transactions	(183,373)
Total Increase (Decrease) in Net Assets	(305,146)
Net Assets Held in Trust for Pool Participants	
Beginning of Period	1,423,382
End of Period	\$1,118,236

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Local Government Investment Pool

Summary of Fair Value and Interest Rate Risk at June 30, 2005

(dollars in thousands)

Investment Type	Carrying Value	Fair Value	Interest Rates	Investment Maturities	
				In Years	
				Less than 1	1-5
Commercial Paper*	\$24,698	\$24,698	3.460%	\$24,698	
Repurchase Agreements	100,000	100,000	1.806% - 2.420%		
Corporate Debt Instruments	111,582	111,731	2.800% - 7.600%	62,074	\$49,657
U.S. Treasury Obligations	49,415	47,257	2.500% - 6.500%	17,571	29,686
Federal Farm Credit Bank**	52,208	50,435	2.200% - 6.600%	29,033	21,402
Federal Home Loan Bank**	193,166	190,782	1.875% - 5.375%	111,636	79,146
Federal Home Loan Mortgage Corp.**	170,370	168,017	2.125% - 5.500%	91,072	76,945
Federal National Mortgage Assoc.**	178,629	176,504	2.250% - 6.000%	90,525	85,979
Money Markets*	240,747	240,747			
Total Debt Securities	1,120,815	1,110,171			
Accrued Interest	8,065	8,065			
Securities Lending Collateral	666,546	666,546		666,546	
Total Investments	\$1,795,426	\$1,784,782		\$1,093,155	\$342,815

*Reported as Cash and Cash Equivalents.

**Mortgage-backed securities are reported using weighted-average maturity to more accurately reflect the projected term of the security, considering interest rates and repayment terms.

Local Government Investment Pool

Change in Fair Value For the Fiscal Year Ended June 30, 2005

(dollars in thousands)

Fair Value of Investments at June 30, 2005	\$1,118,236
Add: Proceeds of Investments Sold in FY2005	9,619,502
Subtract: Cost of Investments Purchased in FY2005	(9,446,765)
Subtract: Fair Value at June 30, 2004	(1,423,558)
Change in Fair Value of Investments During FY2005	(\$132,585)

Local Government Investment Pool

Concentration of Credit Risk at June 30, 2005

(dollars in thousands)

Issuer	Fair Value	Percent of Total LGIP Investments
Federal Home Loan Bank	\$190,782	10.69
Federal Home Loan Mortgage Corp.*	215,697	12.09
Federal National Mortgage Assoc.	176,504	9.89
Goldman Corp.*	99,388	5.56
Morgan Money Market*	109,999	6.16
American Beacon Money Market**	240,541	13.48

*Amounts include reinvestment of securities lending collateral.

**Reported as Cash and Cash Equivalents on the financial statements.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Local Government Investment Pool

Credit Quality Ratings of Debt Securities at June 30, 2005

(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Baa
Commercial Paper*	\$24,698				
Corporate Debt Instruments	111,731	\$26,620	\$12,986	\$46,721	\$25,404
Federal Farm Credit Bank	50,435	50,435			
Federal Home Loan Bank	190,782	190,782			
Federal Home Loan Mortgage Corp.	168,017	168,017			
Federal National Mortgage Assoc.	176,504	176,504			
Repurchase Agreements - Underlying:					
U.S. Government Agency Obligations	100,000	100,000			
Money Markets	240,747	240,747			
Reinvestment of Securities Lending Collateral:**					
U.S. Government Agency Obligations	47,681	47,681			
Corporate Debt Instruments	220,866	65,968	61,023	93,875	
Repurchase Agreements	381,726			381,726	
Mortgage-Backed Securities	15,020	15,020			
Total Rated Investments	\$1,728,207	\$1,081,774	\$74,009	\$522,322	\$25,404

*Top rating for commercial paper is A1-P1. All commercial paper is rated A1-P1.

**Not all collateral was reinvested at June 30. A portion remained on deposit with the securities lending custodian.

Local Government Investment Pool

Balances of Securities Lending Transactions at June 30, 2005

(dollars in thousands)

Securities Lent for Cash Collateral	Carrying Value of Lent Securities	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
Corporate Debt Instruments	\$26,788	\$14,831	\$15,155
U.S. Treasury Obligations	49,415	47,951	48,916
U.S. Government Agency Obligations	594,340	585,738	602,475
Totals	\$670,543	\$648,520	\$666,546

At June 30, 2005, the LGIP portfolio included the following debt investments with terms that may cause their fair values to be highly sensitive to interest rate changes:

- One corporate obligation valued at \$24.7 million with a floating rate coupon based on the Consumer Price Index.
- Corporate obligations valued at \$40.7 million with a floating rate coupon that resets every quarter to the U.S. LIBOR (the rate that non-U.S. banks pay to borrow U.S. dollars) plus basis points.
- Corporate obligations valued at \$19.9 million with a floating rate coupon that resets every quarter to the 3-month U.S. Treasury Bill rate plus basis points and are capped at 4.5 percent or 4.8 percent.
- U.S. Agency obligations valued at \$628.5 million with call options.
- Federal Home Loan Bank obligations valued at \$24.8 million with call options and coupon increases of 10 or 50 basis points.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

C. Diversified Bond Fund (DBF)

Diversified Bond Fund

Condensed Statement of Net Assets

June 30, 2005

(amounts in thousands)

Assets	
Cash and Cash Equivalents	\$15,431
Investments, at Fair Value	271,487
Interest Receivable to the Pool	1,945
Securities Lending Collateral	228,897
Total Assets	517,760
Liabilities	
Distributions Payable	1,005
Obligations Under Securities Lending	228,897
Total Liabilities	229,902
Net Assets Held in Trust for Pool Participants	\$287,858
Net Assets Consist of:	
External Participant Units Outstanding (\$1.00 par)	\$68,029
Internal Participant Units Outstanding (\$1.00 par)	219,829
Net Assets Held in Trust for Pool Participants	\$287,858
Total Participant Units Outstanding (\$1.00 par)	290,946
Participant Net Asset Value, Offering Price and Redemption	
Price Per Share (\$287,858 divided by 290,946 units)	\$0.99

Diversified Bond Fund

Condensed Statement of Operations and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

(dollars in thousands)

Investment Income	
Interest Income (at stated rate of interest)	\$11,693
Securities Lending Income (at stated rate of interest)	47
Net Increase (Decrease) in Fair Value of Investments	396
Total Investment Income	12,136
Expenses	
Administrative Fees	(641)
Total Investment Expenses	(641)
Net Investment Income (Net Increase in Net Assets as a Result of Operations)	11,495
Distributions to Participants	
Distributions Paid and Payable	(12,013)
Share Transactions at Net Asset Value of \$1.00 per Share	
Pooled Participant Deposits	\$91,577
Pooled Participant Withdrawals	(10,172)
Net Increase (Decrease) in Net Assets and Shares Resulting From Share Transactions	81,405
Total Increase (Decrease) in Net Assets	80,887
Net Assets Held in Trust for Pool Participants	
Beginning of Period	206,971
End of Period	\$287,858

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Diversified Bond Fund

Summary of Fair Value at June 30, 2005

(dollars in thousands)

Investment Type	Carrying Value	Fair Value	Interest Rates
Corporate Debt Instruments	\$35,806	\$35,759	4.375% - 7.200%
U.S. Treasury Obligations	40,959	41,081	2.250% - 6.500%
Mortgage-Backed Securities	133,489	131,490	6.000% - 7.000%
Federal Home Loan Bank	37,184	37,034	2.830% - 5.830%
Federal Home Loan Mortgage Corp.	7,919	7,910	3.600% - 7.000%
Federal National Mortgage Assoc.	13,648	13,553	3.250% - 7.000%
Commercial Mortgages	4,565	4,660	6.341% - 6.590%
Money Market Account **	15,431	15,431	
Total Debt Securities	289,001	286,918	
Accrued Interest	1,945	1,945	
Securities Lending Collateral	228,897	228,897	
Total Investments	\$519,843	\$517,760	

** Reported as Cash and Cash Equivalents on the financial statements.

Diversified Bond Fund

Change in Fair Value For the Fiscal Year Ended June 30, 2005

(dollars in thousands)

Fair Value of Investments at June 30, 2005	\$288,863
Add: Proceeds of Investments Sold in FY2005	230,356
Subtract: Cost of Investments Purchased in FY2005	(311,852)
Subtract: Fair Value at June 30, 2004	(206,971)
Change in Fair Value of Investments During FY2005	\$396

Diversified Bond Fund

Concentration of Credit Risk at June 30, 2005

(dollars in thousands)

Issuer	Fair Value	Percent Total DBF Investments
Cantor Fitzgerald Corp.*	\$28,128	5.43
Federal Home Loan Bank	37,034	7.15
Federal Home Loan Mortgage Corp.*	80,862	15.62
Federal National Mortgage Assoc.	73,726	14.24

* Amounts include reinvestment of securities lending collateral.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Diversified Bond Fund

Interest Rate Risk at June 30, 2005

(dollars in thousands)

	Fair Value	Investment Maturities			
		In Years			
		Less than 1	1-5	6-10	11-15
Debt Securities					
Corporate Debt Instruments	\$35,759	\$2,050	\$13,761	\$14,856	\$5,092
U.S. Treasury Obligations	41,081		36,460	4,621	
Mortgage-Backed Securities*	131,490	6,832	109,213	15,445	
Federal Home Loan Bank	37,034	6,025	17,889	13,120	
Federal Home Loan Mortgage Corp.*	7,910		7,910		
Federal National Mortgage Assoc.*	13,553		13,553		
Commercial Mortgages*	4,660		1,489	3,171	
Money Market Account**	15,431	15,431			
Reinvestment of Securities Lending Collateral:***					
U.S. Government Agency Obligations	6,542	6,542			
Corporate Debt Instruments	98,741	98,741			
Mortgage-backed Securities	4,946	4,946			
Open-end Repurchase Agreements	118,582	118,582			
Total Debt Securities	\$515,729	\$259,149	\$200,275	\$51,213	\$5,092

* Mortgage-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

** Reported as Cash and Cash Equivalents on the financial statements.

*** Not all collateral was reinvested at June 30. A portion remained on deposit with the securities lending custodian.

Diversified Bond Fund

Credit Quality Ratings of Debt Securities at June 30, 2005

(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Unrated
Corporate Debt Instruments	\$35,759	\$7,775	\$16,188	\$11,796	
U.S. Treasury Obligations	41,081	41,081			
Mortgage-Backed Securities	131,490	131,490			
Federal Home Loan Bank	37,034	37,034			
Federal Home Loan Mortgage Corp.	7,910	7,910			
Federal National Mortgage Assoc.	13,553	13,553			
Commercial Mortgages	4,660	4,660			
Money Market Account*	15,431	15,431			
Reinvestment of Securities Lending Collateral:**					
U.S. Government Agency Obligations	6,542	6,542			
Corporate Debt Instruments	98,741	26,662	37,704	34,375	
Mortgage-backed Securities	4,946	4,946			
Open-end Repurchase Agreements	118,582				\$118,582
Total Rated Investments	\$515,729	\$297,084	\$53,892	\$46,171	\$118,582

* Reported as Cash and Cash Equivalents on the financial statements.

* Not all collateral was reinvested at June 30. A portion remained on deposit with the securities lending custodian.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Diversified Bond Fund

Balances of Securities Lending Transactions at June 30, 2005

(dollars in thousands)

Securities Lent for Cash Collateral	Carrying Value of Lent Securities	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
Corporate Debt Instruments	\$16,728	\$16,706	\$17,422
U.S. Treasury Obligations	40,959	41,081	42,386
Mortgage-Backed Securities	108,384	106,760	108,948
U.S. Government Agency Obligations	58,750	58,497	60,141
Totals	\$224,821	\$223,044	\$228,897

At June 30, 2005, the DBF portfolio included two Federal Home Loan Bank securities with fair values of \$16.9 million, which may be highly sensitive to interest rate changes. Both had floating interest rates, were callable quarterly, and the quarterly coupon rates were

based on the 3-month U.S. LIBOR (the rate non-U.S. banks pay to borrow U.S. dollars) plus basis points. One security, valued at \$10.0 million was called at par on September 15, 2005.

NOTE 4. INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at June 30, 2005, consisted of the following receivables and payables (dollars in thousands):

		Interfund Payables				
	General Fund	Health and Welfare	Trans- portation	Nonmajor Special Revenue	Nonmajor Enterprise	Internal Service
General Fund			\$1	\$701		\$20
Health and Welfare				4		
Transportation		\$3				29
Endowment Funds	129					
Nonmajor Special Revenue	6	290	110	2,325		4
College and University		226				
Nonmajor Enterprise	29	8	140	8	\$38	10
Internal Service	98	24	8	106		6
Total	\$263	\$551	\$259	\$3,144	\$38	\$69

Interfund receivables and payables generally consist of short-term receivables and payables for goods and services provided by one individual fund within the State to another. Most balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, or 3) payments between funds are made.

The receivables not expected to be collected within one year include \$20,000 advanced by the General Fund to internal service funds, \$301,499 advanced by the General Fund to nonmajor special revenue funds, and \$2.2 million advanced by nonmajor special revenue funds to other nonmajor special revenue funds.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2005, were as follows (*dollars in thousands*):

	Transfers In					Total
	General Fund	Health and Welfare	Nonmajor Special Revenue	College and University	Loan	
General Fund		\$425,024	\$15,534	\$258,538	\$21,800	\$720,896
Health and Welfare			196			196
Transportation			15,409			15,409
Public School Endowment	\$22,958					22,958
Pooled Endowment	4,416			10,021		14,437
Nonmajor Special Revenue	69,365	3,885	415		2,300	75,965
Unemployment Compensation			4,145			4,145
Nonmajor Enterprise	31,445	1,850			7,200	40,495
Internal Service	235					235
Total	\$128,419	\$430,759	\$35,699	\$268,559	\$31,300	\$894,736

Interfund transfers are primarily performed for two reasons:

- 1) Taxes, fees, penalties, earnings, and other revenues are transferred from the agencies that initially collect them (such as the Tax Commission) to the General Fund and other funds as dictated by state law; and
- 2) Revenues are transferred from the fund that is statutorily required to collect them to the fund that is directed, by budgetary authorization, to spend them.

During fiscal year 2005 transfers were made to enable the Idaho Water Resource Board to purchase water rights from the Bell Rapids Mutual Irrigation Company. The transfers made were not routine in nature and were inconsistent with the activities of the fund making the transfer. The transfers were as follows:

- \$21.3 million from the General Fund to the Loan fund
- \$7.2 million from the Liquor Dispensary fund (nonmajor enterprise fund) to the Loan fund.

NOTE 5. NONCURRENT LOANS AND NOTES RECEIVABLE

Loans and notes receivable in the governmental funds consists of long-term receivables from the sale of capital assets, energy conservation, and the implementation of soil and conservation projects in the amount of \$6.8 million, of which \$6.5 million is not expected to be collected within one year. Business-type loans and notes receivable consist of long-term receivables for water project development, drinking water system improvements, wastewater facility enhancements, and student loans in the amount of \$139.2 million, of which

\$130.8 million is not expected to be collected within one year.

Loans and notes receivable for discretely presented component units amount to \$1,004.8 million, of which \$754.7 million is not expected to be collected within one year. These noncurrent receivables consist mainly of the sale of mortgages by the Idaho Housing and Finance Association in the amount of \$753.6 million. Noncurrent interfund receivables are discussed in Note 4.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows (*dollars in thousands*):

Primary Government	Balances at July 1, 2004			Balances at
Governmental Activities:	As Adjusted	Increases	Decreases	June 30, 2005
Capital Assets not Being Depreciated:				
Land	\$881,904	\$19,243	(\$1,047)	\$900,100
Construction in Progress	625,147	269,144	(247,230)	647,061
Infrastructure	1,733,104	48,320	(1,547)	1,779,877
Historical Art and Collections	107	16		123
Total Capital Assets not Being Depreciated	3,240,262	336,723	(249,824)	3,327,161
Capital Assets Being Depreciated:				
Buildings and Improvements	452,703	106,436	(3,686)	555,453
Improvements Other Than Buildings	32,270	13,421	(4,428)	41,263
Machinery, Equipment, and Other	295,385	36,250	(30,059)	301,576
Infrastructure	455,718	39,554	(933)	494,339
Total Capital Assets Being Depreciated	1,236,076	195,661	(39,106)	1,392,631
Less Accumulated Depreciation for:				
Buildings and Improvements	(202,106)	(11,624)	1,278	(212,452)
Improvements Other Than Buildings	(9,022)	(1,709)	43	(10,688)
Machinery, Equipment, and Other	(175,574)	(26,123)	17,150	(184,547)
Infrastructure	(120,072)	(11,458)	366	(131,164)
Total Accumulated Depreciation	(506,774)	(50,914)	18,837	(538,851)
Total Capital Assets Being Depreciated, Net	729,302	144,747	(20,269)	853,780
Governmental Activities Capital Assets, Net	\$3,969,564	\$481,470	(\$270,093)	\$4,180,941

Beginning balances were adjusted for reclassification of historical art and collections to machinery, equipment, and other.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Business-Type Activities:	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005
Capital Assets not Being Depreciated:				
Land	\$36,267	\$5,062	(\$310)	\$41,019
Construction in Progress	74,647	34,492	(45,987)	63,152
Historical Art and Collections	2,180	57	(15)	2,222
Intangible Assets		22,573		22,573
Total Capital Assets not Being Depreciated	113,094	62,184	(46,312)	128,966
Capital Assets Being Depreciated:				
Buildings and Improvements	725,972	56,462	(573)	781,861
Improvements Other Than Buildings	42,615	645	(105)	43,155
Machinery, Equipment, and Other	278,833	21,523	(10,371)	289,985
Total Capital Assets Being Depreciated	1,047,420	78,630	(11,049)	1,115,001
Less Accumulated Depreciation for:				
Buildings and Improvements	(241,726)	(19,388)	439	(260,675)
Improvements Other Than Buildings	(18,578)	(1,714)	11	(20,281)
Machinery, Equipment, and Other	(188,562)	(24,501)	8,228	(204,835)
Total Accumulated Depreciation	(448,866)	(45,603)	8,678	(485,791)
Total Capital Assets Being Depreciated, Net	598,554	33,027	(2,371)	629,210
Business-Type Activities Capital Assets, Net	\$711,648	\$95,211	(\$48,683)	\$758,176

Depreciation expense was charged to functions of the primary government as follows (*dollars in thousands*):

Governmental Activities:	
General Government	\$6,584
Public Safety and Correction	6,424
Health and Human Services	1,979
Education	2,312
Economic Development	24,673
Natural Resources	7,759
In addition, depreciation on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets	1,183
Total Depreciation Expense for Governmental Activities	\$50,914
Business-Type Activities:	
College and University	\$44,619
Loan	137
Nonmajor Enterprise	847
Total Depreciation Expense for Business-Type Activities	\$45,603

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Discretely Presented Component Units	Balances at July 1, 2004 As Adjusted	Increases	Decreases	Balances at June 30, 2005
Capital Assets not Being Depreciated:				
Land	\$23,456	\$1,341	(\$3,265)	\$21,532
Total Capital Assets not Being Depreciated	23,456	1,341	(3,265)	21,532
Capital Assets Being Depreciated:				
Buildings and Other Improvements	22,918	217	(1,407)	21,728
Improvements Other than Buildings	250			250
Machinery, Equipment, and Other	3,244	174	(48)	3,370
Total Capital Assets Being Depreciated	26,412	391	(1,455)	25,348
Less Accumulated Depreciation for:				
Buildings and Other Improvements	(5,458)	(571)	610	(5,419)
Improvements Other than Buildings	(172)	(27)		(199)
Machinery, Equipment, and Other	(2,853)	(198)	47	(3,004)
Total Accumulated Depreciation	(8,483)	(796)	657	(8,622)
Total Capital Assets Being Depreciated, Net	17,929	(405)	(798)	16,726
Component Unit Activities Capital Assets, Net	\$41,385	\$936	(\$4,063)	\$38,258

Beginning balances were adjusted for the inclusion of the Idaho Housing and Finance Association.

NOTE 7. RETIREMENT PLANS

Summary of Plans

The Public Employee Retirement System of Idaho (PERSI) administers the Public Employee Retirement Fund Base Plan (PERSI Base Plan), the Firemen's Retirement Fund (FRF), and the defined contribution retirement plans. A retirement board, appointed by the Governor and confirmed by the State Senate, manages PERSI, which includes selecting the funding agents and establishing funding policy. The Idaho Judicial Department, under the direction of the Idaho Supreme Court, administers the Judges' Retirement Fund (JRF). The Teachers' Insurance and Annuity Association-College Retirement Equities Fund administers an Optional Retirement Plan (ORP) for the colleges and universities. The Idaho Department of Commerce and Labor administers a closed retirement plan for certain employees of the Department hired prior to October 1, 1980.

PERSI issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employee Retirement System of Idaho, P.O. Box 83720, Boise, ID 83720-0078.

Each of the PERSI administered plans, the JRF, the ORP, and the Labor Retirement are discussed individually below.

A. Public Employee Retirement Fund Base Plan

Plan Description

Organization and Purpose

The PERSI Base Plan is a cost-sharing, multiple-employer defined benefit retirement plan. It is governed by *Idaho Code*, Sections 59-1301 through 59-1399.

Membership

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the PERSI Base Plan. Participation is mandatory for state employees who normally work 20 or more hours a week for five or more consecutive months. As of June 30, 2005, the number of participating employer units was 684 and actual benefit recipients and members were as follows:

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Retirees, Beneficiaries, and Vested Terminated	
Employees	35,706
Current Active Employees	<u>64,391</u>
Total	<u>100,097</u>

Benefits

The benefit structure is based on member's years of service, age, and highest average salary. In addition, benefits are provided for disability or death and to survivors of eligible members or beneficiaries. Members are eligible for retirement benefits upon attainment of the age specified for their employment classification or a combination of age plus service. The annual service retirement allowance for each month of credited service is 2 percent (2.3 percent for police) of the average monthly salary for the highest consecutive 42 months.

The benefit payments are calculated using a benefit formula adopted by the Idaho Legislature. The PERSI Base Plan is required to provide a 1 percent minimum cost of living increase per year provided the Consumer Price Index increases 1 percent or more. The PERSI Retirement Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6 percent, whichever is less; however, any amount above the 1 percent minimum is subject to approval by the Legislature.

Summary of Significant Accounting Policies

The PERSI Base Plan's basic financial statements are prepared using the accrual basis of accounting and flow of economic resources measurement focus. Employee and employer contributions are recognized as revenues in the period in which employee services are performed; investment income is recognized when earned; and benefit payments, refunds, and other expenses are recorded when the benefits are due and payable in accordance with the Plan's terms. PERSI adheres to GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Investments are presented at fair value. Purchases and sales are recorded at the trade date. Investments held by the PERSI Base Plan and the FRF are commingled. The fair value of investments is based on published market prices and quotations from major investment brokers when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of longer-term real estate investments has been estimated based on the PERSI's consultants and independent appraisals. Short-term investments are reported at market value when published

market prices and quotations are available or at cost plus accrued interest, which approximates market value.

Funding Policy

Contributions and Vesting

Funding policy for the PERSI Base Plan is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The PERSI Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period permitted under *Idaho Code*, Section 59-1322, is 25 years. The payroll for employees covered was approximately \$2,176.0 million.

Employer contributions required and paid were \$68.2 million, \$69.3 million, and \$76.2 million, for the years ended June 30, 2003, 2004, and 2005, respectively.

Actuarial valuations are performed annually. The last valuation was performed as of July 1, 2005. Normal cost is 14 percent of covered payroll and the amount available to amortize the unfunded actuarial liability is 4.8 percent of covered payroll.

The contribution rates for the year ended June 30, 2005, were as follows:

Employee Group	Employer	Employee
PERSI		
General	10.4%	6.2%
Police and Fire	10.7%	7.7%
ORP		
Colleges and Universities	3.0%	N/A
Junior Colleges	3.8%	N/A

After five years of credited service (five months for elected or appointed officials) members become fully vested in retirement benefits earned to date. Upon termination of employment accumulated member contributions plus interest accrued at 17.5 percent January 1 through June 30, 2005; and 3.2 percent July 1 to December 31, 2004; compounded monthly per annum, are refundable. Withdrawal of such accumulated

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

Funding

Contributions from members and employers, in addition to earnings from investments, fund PERSI Base Plan benefits. Member and employer contributions are a percentage of applicable member compensation. As defined by state law, member contribution rates are a percentage of the employer contribution rate. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of PERSI's Retirement Board and set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of PERSI. Costs of administering the plans are financed through the contributions and investment earnings of the system.

B. Firemen's Retirement Fund

Plan Description

The FRF is a cost-sharing, multiple-employer, defined benefit retirement plan. The FRF is governed by *Idaho Code*, Sections 72-1401 through 72-1472. The FRF is administered by the PERSI, which is part of the primary government. However, the State does not employ firefighters participating in the FRF; therefore, no employer costs are disclosed. As of June 30, 2005, there were 22 participating employer units, all consisting of local fire departments. The significant accounting policies are the same as detailed for the PERSI Base Plan. Complete FRF disclosures may be found in the PERSI financial statements.

C. Defined Contribution Retirement Plans

The defined contribution retirement plans include the 401(k) plan and the 414(k) plan. The plans are governed by *Idaho Code*, Sections 59-1301 through 59-1399. Participants direct their investment mix without restriction and may elect to change their salary deferral.

Plan Description

Organization and Purpose

The assets of the two plans are commingled for investment and recordkeeping purposes. The 401(k) plan is open to all active PERSI Base Plan members and was established February 1, 2001. The 414(k) plan was established for gain sharing allocations from the PERSI Base Plan. The gain-sharing amount (if any) is based on funding levels in the PERSI Base Plan.

PERSI entered into a contract with Mellon Human Resources & Investor Solutions (MHR&IS) for services relating to eleven investment options that are mutual or collective funds and include the PERSI Total Return Fund, seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1 percent increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI Total Return Fund is made.

Membership

The plans have 684 employer units eligible to have participating employees. As of June 30, 2005, the plans had 53,285 participating employees.

Benefits

On May 1, 2001, the 401(k) plan became open to voluntary employer matching contributions at rates determined by the employers. Eligibility for the 414(k) gain sharing requires twelve months of active PERSI membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible PERSI Base Plan members who were active as of June 30, 2000, and eligible to receive gain sharing contributions, received an allocation.

Summary of Significant Accounting Policies

The significant accounting policies are the same as the PERSI Base Plan.

Funding Policy

Contributions

Beginning in January 2002 employees in the 401(k) plan could make tax-deferred contributions up to 100 percent of their gross salary less deductions and subject to the IRS annual contribution limit. Employers and participants in the plans contributed \$203 thousand and \$21.5 million, respectively, during the fiscal year ended June 30, 2005.

Funding

The administrative expenses of the plans, most of which are paid to MHR&IS, are funded by the PERSI Base Plan.

D. Judges' Retirement Fund

Plan Description

Organization and Purpose

The JRF is a single-employer defined benefit retirement plan, which provides retirement benefits for justices of

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

the Idaho Supreme Court, court of appeals judges, and district court judges, hereinafter referred to as "members." The Judicial Department, under the direction of the Idaho Supreme Court, administers the JRF. The JRF is guided by *Idaho Code*, Sections 68-501 through 68-506; and *Idaho Code*, Title 1, Chapter 20; and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments.

The JRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Idaho Supreme Court, P.O. Box 83720, Boise, ID 83720-0101.

Membership

As of June 30, 2005, the JRF had 65 retired members or beneficiaries collecting benefits, 8 terminated members entitled to but not yet receiving benefits, and 48 active members.

Benefits

The benefit structure is based on member's years of service and compensation. In addition, benefits are provided for disability or death and to survivors of eligible members. The benefit payments for the JRF are calculated using a benefit formula adopted by the Idaho Legislature, effective July 1, 2000. Members serving prior to but not on July 1, 2000, are paid under option A. Members serving on or after July 1, 2000, may choose between two benefit payment options, A or B. Both options are based upon compensation of the highest office in which the member served, with benefits for option A accumulating as follows:

- For the first ten years of service, benefits are credited at 5 percent per year of member's compensation.
- For the remaining years of service, benefits are credited at 2.5 percent per year of member's compensation.

In addition to the above benefits, option B offers:

- Benefits accumulated at 2.5 percent per year for senior judges with five years of service.

The maximum benefit is 75 percent of compensation. Surviving spouses will be entitled to benefits equal to 50 percent of the member's calculated benefit.

Summary of Significant Accounting Policies

The JRF's financial statements are prepared using the accrual basis of accounting. Member and Department contributions are recognized as revenues in the period in

which the member's services are performed. Investment income and filing fees are recognized when earned. Benefit payments and refunds are recognized when the obligation is due and payable in accordance with terms of the plan. Other expenditures are recognized when the obligation is incurred.

The JRF's investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers when available. Short-term investments are reported at market value when published market prices and quotations are available or at cost plus accrued interest, which approximates market value. Purchases and sales are recorded at the trade date.

Funding Policy

Contributions and Vesting

Members and the Judicial Department contribute to the JRF during the members' first 20 years of employment. Member and Department contributions are a percentage of member compensation as defined by state law. JRF policy provides for Department and member contributions at 7 percent and 6 percent, respectively, of annual covered payroll. The payroll for members covered by the JRF was approximately \$4.5 million for the fiscal year ended June 30, 2005. In addition, specified court-filing fees in civil court actions are dedicated to the JRF.

The funding status and required contribution levels are reviewed periodically by an actuary using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The unfunded actuarial liability created by this method is amortized as a level percentage of salary over 25 years on an open basis. The actuarial assumptions include a 7.5 percent investment rate of return, projected salary increases of 3 percent, and postretirement benefit increases of 3 percent. Actuarial valuations of the JRF are generally performed biennially. Based on the most recent actuarial valuation as of June 30, 2005, the annual required contribution (ARC) was \$2.1 million. Net pension obligation increased from \$374,765 in 2004 to \$621,288 in 2005 due to the annual pension cost exceeding the employer's contributions. Total Judicial Department and member contributions to the pension plan for the fiscal year ended June 30, 2005, amounted to \$2.1 million, of which \$1.5 million was received from filing fees and \$312,505 and \$267,861 from the Judicial Department and its members, respectively.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

The State's annual pension cost and net pension obligation to JRF for the current year and two preceding years was as follows (*dollars in thousands*):

Idaho Judges' Retirement Fund

Annual Pension Cost and Net Pension Obligation

	2003	2004	2005
Annual Required Contribution (ARC)	\$1,942	\$2,086	\$2,099
Interest on Net Pension Obligation (NPO)	1	9	28
Adjustment to ARC	(1)	(10)	(34)
Annual Pension Cost (APC)	1,942	2,085	2,093
Employer Contributions Made	(1,836)	(1,834)	(1,847)
Increase (Decrease) in NPO	106	251	246
Prior Year NPO	18	124	375
Current Year NPO	\$124	\$375	\$621
Percentage of APC Contributed	94.5%	88.0%	88.2%

Members become fully vested in their retirement benefits after four years of credited service. If a member terminates from the retirement plan prior to four years of service, the member's contributions plus 6.5 percent per annum will be returned. Members are eligible for retirement benefits upon meeting one of the following criteria:

- attainment of age 65 and a minimum of 4 years of service
- attainment of age 60 and a minimum of 10 years of service
- attainment of age 55 and a minimum of 15 years of service, or
- after 20 years of service.

Funding

The JRF's benefits are funded by contributions from members and the Judicial Department, earnings from investments, and court filing fees. Costs of administering the JRF are financed through the contributions and investment earnings of the JRF.

E. College and University Optional Retirement Plan

Plan Description

Organization and Purpose

Effective July 1, 1990, the State Legislature authorized the Idaho State Board of Education to establish the Optional Retirement Plan (ORP), a defined contribution plan for college and university faculty and exempt employees. The ORP is governed by *Idaho Code*, Sections 33-107A and 33-107B. Vendor options include

Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance Company. The Plan is administered by TIAA-CREF, and they may be reached at (800) 842-2009.

Membership

New faculty and exempt employees hired July 1, 1990, or thereafter, automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990, had a one-time opportunity to enroll in the ORP.

Funding Policy

Contributions and Vesting

The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State. Although enrollees in the ORP no longer belong to PERSI, the employer is required to contribute 3 percent of the annual covered payroll to PERSI through July 1, 2015 (3.8 percent through July 1, 2011, for Eastern Idaho Technical College). During the fiscal year ended June 30, 2005, the supplemental funding payment made to PERSI was \$5.2 million.

The contribution requirement and amount paid for the fiscal year ended June 30, 2005, was \$25.0 million, which consisted of \$13.1 million from the colleges and universities and \$11.9 million from employees. These contributions represented approximately 7.7 percent and 7 percent of covered payroll from the universities and employees, respectively.

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

any portion thereof upon attaining 55 years of age (62 years of age for University of Idaho).

F. Department of Labor Retirement Plan

Plan Description

Organization and Purpose

This stand-alone, insured retirement plan provides retirement benefits for certain employees (and their beneficiaries) of the Idaho Department of Commerce and Labor hired prior to October 1, 1980. The Plan is governed by *Idaho Code*, Section 72-1335, and U.S. Department of Labor Rules and Regulations. The Labor Retirement Plan is administered by the Idaho Department of Commerce and Labor, which may be reached at (208) 332-3570 ext. 3228.

Membership

There are 73 current participating employees of the Idaho Department of Commerce and Labor and 386 retired former employees or beneficiaries receiving benefits in the Labor Retirement Plan.

Benefits

The retirement benefit payments are calculated using a benefit formula established by the Plan. This monthly benefit is payable for life, through an annuity purchased by Prudential Investments, with 120 payments guaranteed. An annuity is purchased for each retired employee. Once an annuity is purchased, the State has no further liability. Prudential Investments has guaranteed to pay for benefits in the event of Prudential's

insolvency. At September 30, 2004 (the last actuarial valuation date), there was no unfunded liability. The normal service retirement allowance is the average annual salary for the highest three consecutive years times 2 percent for each year of credited service.

According to the latest periodic actuarial valuation on September 30, 2004, the present value of future retirement benefits was \$123.7 million. The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5 percent for 2004. Net assets available for benefits (at fair value) were \$166.9 million.

Funding Policy

Contributions

Until August 1999 the employee contributed a portion (7 percent) of the normal cost contribution rate. The employee contribution was required by the Plan and was therefore made even though it was not actuarially needed to finance future benefits. In August 1999 the U.S. Department of Labor approved a plan change to allow the plan actuary to determine the employee contribution rate. Employee contributions were then suspended through September 30, 2005, consistent with the most recent actuarial valuations. This valuation certified that the total contribution rate should remain at zero through September 30, 2006. The total employer contribution for federal fiscal year 2004 was zero. The employer payments have been fully funded by federal revenues from the U.S. Department of Labor.

NOTE 8. POSTEMPLOYMENT BENEFITS

The State funds or partially funds the following postemployment benefits relating to health, disability, and life insurance. *Idaho Code*, Sections 67-5760 and 67-5761, establishes the benefits and contribution obligations.

A. Postemployment Benefits Other Than Pensions

Retiree Health Insurance Subsidy

A retired officer or employee of a state agency, department, or institution, including state and elected officials, who is eligible to retire under the Public Employee Retirement System of Idaho (PERSI) and whose unreduced PERSI monthly benefit at the time of retirement would meet or exceed the monthly cost of single retiree health insurance coverage, may elect to

have the State's retiree health insurance coverage for themselves and eligible dependents. To be eligible, state employees must enroll within sixty days of the date of their retirement and must have ten or more years (20,800 or more hours) of credited state service in a state-sponsored retirement system. If the date of enrollment is deferred beyond the original date of retirement, the employee's monthly retirement benefit amount must equal or exceed the single retiree premium at the time of the deferred enrollment.

The retiree coverage is different than that for active employees. The retiree pays the majority of the premium cost (unless they are participating in the sick leave fund described later). However, the retiree plan costs are subsidized by the active employee plan. In fiscal year 2005 the State contributed eight dollars per active non-

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

retired employee per month and the active employees contributed an equal amount, which went to a reserve to offset the monthly costs of the retirees' benefits. Other than an aging population, no significant matters affect comparability of the State's costs from one year to the next. The State's monthly contribution (towards the monthly premium) of \$146,000 was approximately 4.2 percent of the total annual state and employee contribution of \$3.5 million. The State's annual contribution towards the retiree premium cost was approximately \$1.8 million. A total of 3,156 retired employees were eligible to receive benefits as of June 30, 2005. The Legislature has not set aside any assets to pay future benefits. The benefits are pay-as-you-go.

Long-Term Disability

Long-term disability benefits are available for disabled employees, generally up to a maximum age of 70. Disabled employees are defined as being unable to perform each of the substantial and material duties of the job for which they were hired for the first 30 months of disability, or any job thereafter for which they are reasonably qualified by experience, education, or training. Additionally, to qualify for long-term disability, the waiting period of the later of 26 weeks of continuous total disability or exhaustion of accrued sick leave must be met. The gross benefit equals 60 percent of monthly salary or \$3,000 (whichever is smaller). The benefit does not increase with inflation and may be offset by other disability benefits from Social Security, Workers' Compensation, or PERSI. The State pays 100 percent of the cost of the program.

Beginning in fiscal year 2004 long-term disability benefits were insured by Principal Life Insurance Company. Claims prior to July 1, 2003, were self-funded. Both self-funded and fully-funded benefits use the one-year term cost method. Each fiscal year the State funds the estimated actuarial present value of benefits for disabilities incurred in that fiscal year. In addition, funding for disabilities incurred in prior fiscal years is adjusted periodically to reflect unanticipated changes in the number of claimants or benefit levels. Significant actuarial assumptions include an interest rate of 5.5 percent (based on the most recent actuarial report available) and a standard disability termination table.

Plan assets are valued at cost. As of June 30, 2004, net assets available for future payments were \$18.1 million. The actuarial accrued liability for disabilities incurred in fiscal year 2004 and all prior fiscal years was \$11.2 million (\$16.3 million on an undiscounted basis) and there was no unfunded actuarial accrued liability.

The State's actuarially required and actual contribution for the fiscal year ending June 30, 2004, was zero. As of June 30, 2004, there were 255 disabled employees receiving this benefit.

Payment of Life Insurance Premiums for Disabled Employees

The State pays 100 percent of the cost of basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. Disabled employees are defined as being unable to perform each of the substantial and material duties of the job for which they were hired for the first 30 months of disability, or any job thereafter for which they are reasonably qualified by experience, education, or training. The life insurance benefit amount is generally 100 percent of annual salary, but not less than \$20,000. The benefit does not increase with inflation.

The State holds a reserve to self-fund the life claims for disabled employees in the event of contract termination with the Principal Life Insurance Company. This reserve is determined using the one-year term cost method, and it is funded periodically by the State. Significant actuarial assumptions include an interest rate of 5.5 percent and a standard waiver of premium life table.

Plan assets are valued at cost. As of June 30, 2004, the actuarial accrued liability was \$7.4 million (\$10 million on an undiscounted basis). The unfunded actuarial accrued liability was \$2.3 million. The net assets available for future payments was \$5.1 million.

An actuarially required contribution was not determined, and no contribution was made for the fiscal year ending June 30, 2004. At year-end there were 546 disabled employees receiving this benefit.

Payment of Health Insurance Premiums for Disabled Employees

For up to 30 months following the date of disability, the State pays 100 percent of the State's share of medical/dental premiums while the employee remains disabled. The employee is required to pay the normal active employee contribution for these benefits.

Each fiscal year, the State funds the estimated actuarial present value of benefits for disabilities incurred in that fiscal year. In addition, funding for disabilities incurred in prior fiscal years is adjusted periodically to reflect unanticipated changes in number of claimants or benefit levels. The reserves and funding amounts are determined in accordance with the one-year term cost

**Notes to the Financial Statements
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method. Significant actuarial assumptions include a standard disability termination table, a medical trend rate of 15 percent, and a discount rate of 4 percent.

Plan assets are valued at cost, and as of June 30, 2004, the net assets available for future payments were \$389,000. The actuarial accrued liability for disabilities incurred in fiscal year 2004 and all prior fiscal years was \$1.3 million as of June 30, 2004, and the unfunded actuarial accrued liability was \$1.6 million. The actuarial accrued liability was \$1.3 million on an undiscounted basis.

The State's actuarially required contribution for the period was \$5.35 per employee per month, and actual contributions for the period were \$1.12 per employee per month. As of June 30, 2004, there were 165 disabled employees receiving this benefit.

Long-term disability, payment of life insurance premiums for disabled employees, and payment of health insurance premiums for disabled employees are advance-funded with employer contributions on an actuarially determined basis using the one-year term cost method.

**B. Postemployment Healthcare Benefits
Administered by the Public Employee
Retirement System of Idaho**

Sick Leave Insurance Reserve Fund

School districts and state agencies provide for the payment of certain postretirement health insurance premiums. This postretirement benefit is a defined contribution plan that provides a benefit to retirees based

on unused accumulated sick leave at their retirement date.

The Public Employee Retirement System of Idaho (PERSI) acts as an administrator for this fund on behalf of the employers. The employers finance the program by remitting a percentage of payrolls to PERSI to cover future insurance premiums. Employers are responsible for any unfunded benefit obligations. The Sick Leave Insurance Reserve fund assets are valued at market value.

Idaho Code, Sections 67-5339, 33-1216, and 33-1228, governs this program which provides for the transfer of amounts from the fund for the payment of postretirement health benefits as may be maintained by the employer. The sick leave amount available for benefits is based on the following:

School District Retirees – one-half of their sick leave balance and rate of compensation at retirement.

State Retirees – one-half of their sick leave balance and rate of compensation at retirement, up to the maximum described below:

Credited Hours of State Service	Maximum Allowable Hours
0 – 10,400 (0-5 years)	420
10,401 – 20,800 (5-10 years)	480
20,801 - 31,200 (10-15 years)	540
31,201 + (15 years or more)	600

Actuarial information for postemployment healthcare benefits from the most recent valuation dated July 1, 2004, was as follows (*dollars in thousands*):

	General Employees/ Fire and Police		
	Fire and Police	Teachers	Total
Active Participants	46,267	17,118	63,385
Contributions Required and Paid	\$8,909	\$8,665	\$17,574
Rate of Contribution	0.65%	1.15%	

The Fund is advance-funded with employer contributions on an actuarially determined basis using the entry age actuarial cost method. Postretirement health insurance

premiums are paid from the retiree's sick leave account until the account balance is exhausted.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9. RISK MANAGEMENT

The State maintains a combination of commercial and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through the Risk Management and Group Insurance funds (internal service funds) and various outside entity insurance providers.

The Risk Management fund manages property and general liability risk. The Fund also finances and accounts for other risks not covered by Group Insurance and various outside entity insurance providers. General liability claims are self-insured up to the *Idaho Tort Claims Act* maximum of \$500,000 for each claim. Property damage claims are self-insured for up to \$250,000 per claim annually. Comprehensive collision and physical damage to covered vehicles are self-insured for replacement cost. The State purchases commercial insurance for claims not self-insured by the above coverages and for all other identified risks of loss, including workers' compensation insurance.

The Group Insurance fund is used to account for and finance life, health, and disability insurance programs. Long-term disability benefits within Group Insurance are partially insured through others but the majority is self-insured. The liability for self-insurance claims has been actuarially determined. Policy claim liabilities are presented in the Group Insurance fund and are composed of the liability for self-insured claims and the amounts required to fund premium payments of life and health coverage for disabled employees. Life, short-term disability, and health insurance programs are experience rated and fully insured. However, when the claims exceed 100 percent of the annual premium paid to the insurer, the State is responsible for up to an additional 11.8 percent of the annual premiums for medical, 11.5 percent for dental, and 10 percent for life and disability coverage. The insurance carrier assumes the risk of loss for claims above the contractual ceilings. The amount for which the State is responsible is accounted for and presented as restricted net assets in the Group Insurance fund. The State also maintains program and premium stabilization balances in the event restricted equity is

exhausted. These amounts are included in unrestricted net assets in the Group Insurance fund.

All state entities may participate in the Risk Management and Group Insurance programs. Payments are made to the Risk Management fund based on actuarial estimates, loss experience, exposure, and asset value covered. Payments made to the Group Insurance fund are based on actuarial estimates of the amounts needed to pay for negotiated coverage and projected claims experience. In fiscal year 2003 medical and dental claim settlements exceeded insurance coverage by \$8.6 million and \$0.2 million, respectively. In fiscal years 2004 and 2005 neither medical nor dental claim settlements exceeded insurance coverage.

The liabilities for the Risk Management and Group Insurance funds are based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 30, *Risk Financing Omnibus*. These statements require that a liability for claims be reported if information prior to the issuance of the financial statements indicates the probability exists that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities for Risk Management include claim adjustment costs and any anticipated subrogation receipts. At fiscal year-end \$19.7 million of unpaid claim liabilities for Risk Management are presented at present value, \$17.4 million, using a 4.5 percent discount interest rate. Unpaid claim liabilities of \$27.6 million for Group Insurance are presented at present value, \$19.9 million, using a 5.5 percent discount rate.

The State records its premium liability using discounted amounts provided by actuaries. The discounted liabilities take into account anticipated investment income. Changes in policy claim liabilities for the fiscal years ending June 30, 2004 and 2005, were as follows (*dollars in thousands*):

	Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimate	Claims Payments	Ending Balance
Risk Management	2004	\$16,633	(\$2,757)	(\$2,048)	\$11,828
	2005	11,828	7,619	(2,089)	17,358
Group Insurance*	2004	\$22,796	\$550	\$0	\$23,346
	2005	23,346	(3,441)	0	19,905

*Group Insurance amounts are based on the most recent actuarial study for fiscal year 2004 and estimates for fiscal year 2005.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10. LEASES

A. State as Lessee

The State leases office buildings, vehicles, and office equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered noncancelable for financial reporting purposes. Any escalation clauses, sublease rentals, executory costs, and contingent rentals are considered immaterial to the future minimum lease payments and current rental expenditures.

Operating Leases

Operating leases are leases that do not qualify for capitalization; therefore, the lease agreements are not reflected as assets in the State's balance sheet. Operating leases contain various renewal options, as well as some purchase options. Operating lease payments are recorded as expenditures or expenses of the related funds

when paid or incurred. The total operating lease expenditures/expenses for fiscal year 2005 were \$21.0 million for the primary government and \$47,310 for component units.

Capital Leases

Capital leases are leases the State has entered into that are, in substance, a purchase. At the date of acquisition the assets are valued on the balance sheet at the present value of the future minimum lease payments. Capital lease assets and obligations are recorded in the respective funds as capital assets and long-term obligations. Interest expense for capital leases is not capitalized.

Boise State University, reported as a major enterprise fund, leased a building from the Boise State University Foundation, a discretely presented component unit. The gross amount of this capital-leased building and improvements is \$6.0 million.

Future minimum lease commitments for noncancelable operating and capital leases as of June 30, 2005, were as follows (*dollars in thousands*):

Fiscal Year	Operating Leases			Capital Leases			
	Primary Government	Component Units	Total Operating Leases	Governmental Activities	Business-Type Activities With Third Parties	Business-Type Activities With Component Unit	Total Capital Leases
2006	\$19,836	\$48	\$19,884	\$1,154	\$497	\$424	\$2,075
2007	17,396	38	17,434	1,027	383	431	1,841
2008	13,963	38	14,001	1,024	334	426	1,784
2009	9,551	39	9,590	928	288	425	1,641
2010	7,367	39	7,406	931	288	423	1,642
2011 - 2015	14,810	55	14,865	4,430		2,148	6,578
2016 - 2020	4,937	83	5,020	3,276		837	4,113
2021 - 2025	5,176	113	5,289	2,932			2,932
2026 - 2030		113	113	980			980
2031 - 2035		45	45	199			199
Total Payments	\$93,036	\$611	\$93,647	16,881	1,790	5,114	23,785
Less Imputed Interest				7,591	340	1,457	9,388
Total Present Value of Minimum Lease Payments				\$9,290	\$1,450	\$3,657	\$14,397

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Assets under capital lease with third parties as of June 30, 2005, were as follows (*dollars in thousands*):

	Governmental Activities	Business-Type Activities	Capital Assets Under Capital Leases
Land	\$166		\$166
Buildings and Improvements	9,320	\$335	9,655
Improvements Other Than Buildings	609		609
Machinery, Equipment, and Other	1,529	3,293	4,822
Total Capital Leases	\$11,624	\$3,628	\$15,252

B. State as Lessor

Non-state parties rent land and buildings under operating leases from the Lava Hot Springs Foundation, and the Departments of Health and Welfare, Juvenile

Corrections, Lands, and Parks and Recreation. At June 30, 2005, the State leased the following (*dollars in thousands*):

Asset Class	Fair Market Value at Date of Acquisition	Accumulated Depreciation	Current Book Value
Land	\$2,233		\$2,233
Buildings and Improvements	1,355	(\$563)	792
Improvements Other Than Buildings	7	(7)	
Total	\$3,595	(\$570)	\$3,025

The Lava Hot Springs Foundation and Department of Lands participate in zero service leases. A zero service lease is an operating lease in which the lessee pays the State a market rent for use of the real property with no other services provided by the State. The lessee bears the responsibility for actual operating costs associated with the services necessary to operate the property, with

the exception of property damage and casualty insurance which the State maintains as part of the State's risk management program. The actual cost of operating the property does not affect the market rent under the lease. The market rent paid by the lessee is established by an independent appraisal.

The following is a schedule of minimum future rentals for operating leases as of June 30, 2005 (*dollars in thousands*):

Fiscal Year Ending June 30	Total
2006	\$7,111
2007	6,776
2008	6,339
2009	5,838
2010	5,440
2011 - 2015	8,769
2016 - 2020	2,658
2021 - 2025	2,556
Total Minimum Future Rentals	\$45,487

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease

contracts. Contingent rentals amounted to \$11,863 in fiscal year 2005.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11. SHORT-TERM DEBT

Idaho Code, Section 63-3201, authorizes the State Treasurer, on approval of the State Board of Examiners, to borrow money in anticipation of current year receipts. The State uses external tax anticipation notes (TAN) to cover the shortfall between General Fund revenues and disbursements during the year. General Fund revenues are received in relatively uneven amounts throughout the fiscal year due to various factors regarding the timing of receipts, such as the collection of individual income taxes in April, large sales tax receipts in January as a

result of holiday shopping, and quarterly collections of corporate income tax. During fiscal year 2005 the State anticipated that it would receive 44.2 percent of General Fund revenues in the first six months; however, disbursements during the same period were expected to account for 57.7 percent of total expenditures, mainly due to public school aid and Health and Welfare. The external TAN sold on the open market were issued on July 1, 2004, and redeemed on June 30, 2005.

TAN activity for the year ended June 30, 2005, was as follows (*dollars in thousands*):

	Beginning Balance	Issued	Redeemed	Ending Balance
External Tax Anticipation Notes	\$0	\$230,000	\$230,000	\$0

NOTE 12. BONDS/NOTES/OTHER LONG-TERM LIABILITIES

A. Compensated Absences

Idaho's compensated absences policy permits employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Employees earn vacation based on hours worked and compensatory time based on hours worked in excess of forty hours per week. Upon termination of employment, an employee is paid for unused vacation time and administrative leave. All employees covered by the Fair Labor Standards Act are paid compensatory balances at termination.

A liability is accrued for all vacation pay and compensatory time when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The liability is based on the pay rate in effect at the balance sheet date. Idaho does not accumulate a liability for sick leave since the State has a policy to not pay any amounts when employees separate from service. Upon retirement 50 percent of an employee's unused sick leave value (not to exceed 600 hours) is reported to the Public Employee Retirement System of Idaho to purchase health insurance for the retiree. The value of sick leave balances accumulated to pay retiree health insurance benefits are reported in a trust fund and are not included as part of the compensated absences liability on the government-wide statements. Also included in compensated absences is a \$147,000 liability for one-time special termination benefits associated with the University of Idaho's

Voluntary Separation and Retirement Opportunities Program. The State assumes a first-in, first-out flow for compensated absences balances. Presentation of compensated absences requires the use of certain estimates and calculations based on current year activity and historical data.

B. Revenue Bonds

Revenue bonds have been issued for governmental and business-type activities and component units.

The Idaho State Building Authority (nonmajor special revenue fund) issues notes and bonds to finance construction or acquisitions of facilities for lease to state agencies and community college districts subject to prior legislative approval. Idaho State Building Authority bonds are direct obligations of the Authority, payable from and secured by a pledge of lease revenues and other funds and reserves held under bond resolutions. The Authority has surety bonds in amounts up to the reserve requirements for all outstanding bonds. No amounts were outstanding at June 30, 2005, under these surety bonds.

The State's colleges and universities (major enterprise fund) issued a number of bonds for the primary purpose

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

of funding various construction projects. University bonds are secured by student fees and the sale of goods and services.

The Idaho Water Resource Board (Loan major enterprise fund) is authorized to issue and sell revenue bonds under provisions in *Idaho Code*, Sections 42-1739 through 42-1749. Bonds in the amount of \$5.0 million were issued in 1999 for the Dworshak Hydroelectric project and the revenues derived from this project are pledged in order to pay its costs of planning, financing, acquiring, constructing, operating, and maintaining the water project. These bonds are not considered general obligations of the State. The bonds are secured by an irrevocable direct pay letter of credit with the trustee bank. The letter of credit permits the trustee to draw an amount sufficient to pay the current principal payment of the bonds outstanding plus interest accrued to date at the time of the payment. The letter of credit that will expire on May 1, 2006, may be removed under certain conditions described in the bond indenture and may be renewed when it expires. The letter of credit is drawn upon every six months to pay the bondholders and then reimbursed by project revenues. An amount equal to 125

percent of the current year's debt service payment is accumulating in the Loan fund for debt service payment in the event the pipeline to the generation plant is out of service.

The Idaho Housing and Finance Association (discretely presented component unit) is authorized to issue and sell revenue bonds under provisions of *Idaho Code*, Sections 67-6201 through 67-6226. The Association issues bonds to finance various multifamily housing developments in Idaho. The bonds are limited obligations of the Association and are secured by the respective mortgages on each development as well as a lien on all revenues as defined in each respective bond indenture. The bonds are either special or general obligations of the Association and do not constitute a debt of the State of Idaho or any of its political subdivisions.

The State's College and University Foundation fund (discretely presented component unit) issued a number of bonds and notes for the purpose of funding various construction projects. Foundation bonds and notes are secured by various revenue sources, including donations, pledges, and other funds.

Revenue bonds outstanding at June 30, 2005, were as follows (*dollars in thousands*):

Bond Description	Interest Rate	Amount
Governmental Activities		
Nonmajor Special Revenue	2.00% to 5.98%	\$205,510
Business Type Activities		
College and University	2.00% to 6.50%	320,603
Loan	6.50% to 7.75%	4,785
Discretely Presented Component Units		
Idaho Housing and Finance Association	2.45%	1,232,200
College and University Foundation	2.30% to 5.35%	27,045
Total Revenue Bonds Payable		\$1,790,143

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Revenue bond debt service requirements to maturity are as follows (*dollars in thousands*):

Fiscal	Governmental Activities		Business-Type Activities					
Year								
Ending	Nonmajor Special Revenue		College and University		Loan		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$8,755	\$9,052	\$10,725	\$15,529	\$100	\$357	\$19,580	\$24,938
2007	9,015	8,781	11,890	15,154	125	351	21,030	24,286
2008	8,655	8,505	12,255	14,634	150	342	21,060	23,481
2009	8,215	8,224	12,840	14,084	180	332	21,235	22,640
2010	7,210	7,944	13,450	13,506	210	320	20,870	21,770
2011-2015	31,980	35,748	68,555	58,005	1,665	1,316	102,200	95,069
2016-2020	38,380	27,920	75,638	39,636	2,355	484	116,373	68,040
2021-2025	44,060	17,374	61,070	21,611			105,130	38,985
2026-2030	13,415	10,269	29,360	10,772			42,775	21,041
2031-2035	10,830	7,657	13,590	4,780			24,420	12,437
2036-2040	13,905	4,580	9,105	2,100			23,010	6,680
2041-2045	11,090	940	2,125	115			13,215	1,055
Total	\$205,510	\$146,994	\$320,603	\$209,926	\$4,785	\$3,502	\$530,898	\$360,422

Fiscal Year Ending June 30	Discretely Presented Component Units					
	Idaho Housing and Finance Association		College and University Foundation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$136,105	\$54,609	\$1,620	\$717	\$137,725	\$55,326
2007	25,585	56,407	1,635	676	27,220	57,083
2008	31,555	55,099	1,640	635	33,195	55,734
2009	34,000	53,608	2,425	576	36,425	54,184
2010	34,630	51,997	1,660	531	36,290	52,528
2011-2015	184,940	232,745	8,550	1,957	193,490	234,702
2016-2020	196,270	182,709	8,125	735	204,395	183,444
2021-2025	212,775	127,293	1,390	32	214,165	127,325
2026-2030	206,260	69,084			206,260	69,084
2031-2035	153,030	19,529			153,030	19,529
2036-2040	16,445	1,080			16,445	1,080
2041-2045	605	37			605	37
Total	\$1,232,200	\$904,197	\$27,045	\$5,859	\$1,259,245	\$910,056

C. Advance Refundings

In fiscal year 2005 the University of Idaho (major enterprise fund) defeased several bonds by placing the proceeds of the 2005A general revenue bonds with additional funds into an escrow account sufficient to pay all future debt service payments on those defeased bonds. The cash flow savings equaled \$2.5 million and the economic gain equaled \$1.7 million. The outstanding debt payable by the escrow as of June 30, 2005, for the defeased bond issue was \$29.9 million, with a remaining liability of \$2.4 million.

In fiscal year 2005 Boise State University (major enterprise fund) issued 2005A general revenue and refunding bonds, thereby defeasing portions of several prior issues totaling \$12.0 million. The cash flow savings equaled \$0.4 million and the economic gain equaled \$0.4 million. Sufficient proceeds were invested by the trustee in government securities and placed in escrow. The outstanding debt payable by the escrow as of June 30, 2005, for the defeased bond issue is \$12.0 million, with a remaining liability of \$4.6 million.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

In prior years the Idaho State Building Authority (nonmajor special revenue fund) defeased several bonds by placing governmental securities into irrevocable trusts that are sufficient to provide for all future debt service payments on those bonds. Consequently, the related liability was appropriately removed from the financial statements in the year of defeasance. The outstanding debt payable by the trust as of June 30, 2005, for each defeased bond issue follows (*dollars in thousands*):

Bond Issue	Amount Defeased	Remaining Liability
1978 Series A	\$15,284	\$2,795
1992 Series C	9,225	7,055

D. Notes Payable

The Department of Water Resources (Loan major enterprise fund), through the Board of Water Resources, purchased water rights. The water rights were owned by the Bell Rapids Mutual Irrigation Company, and the purchase was authorized by House Bill No. 392 (of the 2005 Legislative Session) to address statewide water

issues driven by drought, water supply, and basic demands of economic development. The obligation to pay for the water rights extends through fiscal year 2010.

The Potato Commission (nonmajor special revenue fund) purchased capital equipment through the issuance of a note payable. The obligation to pay for the equipment extends through fiscal year 2008.

The American Trucking Association Settlement Fund (transportation major special revenue fund) was established by the Idaho Legislature to fund payments related to a lawsuit by the American Trucking Association, et al. The State's original liability, \$10 million, was due to the Petroleum Clean Water Trust Fund (discretely presented component unit) and the remaining liability at June 30, 2005, is \$1.2 million. Monthly payments will be made until the balance is paid in full during fiscal year 2006. The inequality between the receivable and the payable arose because the Petroleum Clean Water Trust Fund reports using a fiscal year-end date of December 31.

Notes outstanding at June 30, 2005, were as follows (*dollars in thousands*):

Note Description	Interest Rates	Balance at June 30, 2005
Governmental Activities		
Transportation	3.76% to 4.62%	\$1,167
Nonmajor Special Revenue	3.90% to 4.10%	22
Business Type Activities		
Loan Fund	0.00%	6,565
College and University	1.00% to 5.01%	10,539
Discretely Presented Component Units		
College and University Foundation	1.00% to 3.98%	10,472
		\$28,765

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

Note debt service requirements to maturity are as follows (*dollars in thousands*):

Fiscal Year Ending June 30	Governmental Activities				Business-Type Activities				Total	
	Transportation		Nonmajor Special Revenue		Loan		College and University			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$1,167	\$11	\$8	\$1	\$1,313		\$1,909	\$367	\$4,397	\$379
2007			9		1,313		1,066	311	2,388	311
2008			5		1,313		1,907	254	3,225	254
2009					1,313		1,046	198	2,359	198
2010					1,313		1,082	162	2,395	162
2011 - 2015							2,971	379	2,971	379
2016 - 2020							558	21	558	21
Total	\$1,167	\$11	\$22	\$1	\$6,565	\$0	\$10,539	\$1,692	\$18,293	\$1,704

Fiscal Year Ending June 30	Discretely Presented Component Unit	
	College and University Foundation	
	Principal	Interest
2006	\$7,072	\$152
2007	3,400	40
2008		
2009		
2010		
2011 - 2015		
2016 - 2020		
Total	\$10,472	\$192

E. Claims and Judgments

Claims and judgments are payable on behalf of the State and its agencies for various legal proceedings and claims. In general, the State records liabilities for material claims and judgments when they are considered probable and estimable. The State recorded the following claims and judgments as of June 30, 2005:

The Idaho Transportation Department (major special revenue fund) experiences contractor claims for reimbursement of additional/extraordinary expenses incurred for the performance of construction contract requirements. The State recorded a liability of \$2.1 million for contractor claims.

The Department of Environmental Quality (nonmajor special revenue fund) entered into a contract with the Environmental Protection Agency (EPA) in April 1995 for the purpose of environmental remediation within the Bunker Hill Superfund Site. Federal Superfund law requires the State to match 10 percent of federal funds spent on actual remediation work and the State to meet all costs of future site operational and maintenance costs.

The April 2004 amended remediation cost estimate was \$142.8 million. The State's share was \$14.7 million. The State matched \$10.4 million, leaving a liability of \$4.3 million. The work is estimated to be completed in calendar year 2007. The State anticipates 1,000 acres of unremediated land will be transferred to the State. The land's value has not been established but is estimated to be insignificant due to the poor access, topography, and unremediated condition of the land.

In August 2002 the federal government, Idaho, Washington, and tribal officials signed a memorandum of agreement to create the Coeur d'Alene Basin Commission that will direct clean up of the Coeur d'Alene Basin in Idaho. The EPA issued a record of decision in September 2002. The State and federal government signed the Coeur d'Alene Basin Superfund contract on October 2, 2003. The current estimate of the liability is \$355.0 million. Idaho's estimated liability is \$31.4 million for remediation costs. Washington State will match the remainder of the liability. The present value of operational and maintenance cost is estimated at

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

\$41.0 million. Work began in 2003 and will take 30 years to complete. Environmental liability estimates are subject to amendment. The State does not anticipate any recovery from other parties for the Coeur d'Alene Basin project.

The Petroleum Clean Water Trust Fund (discretely presented component unit) had policy claim liabilities of \$6.8 million for unpaid losses and loss adjustments. The Life and Health Insurance Guaranty Association (discretely presented component unit) had policy claim liabilities of \$0.1 million.

F. Changes in Long-Term Liabilities

The changes in long-term liabilities for the fiscal year ended June 30, 2005, are summarized as follows (*dollars in thousands*):

Long-Term Liabilities	Balances at July 1, 2004 As Adjusted	Increases	Reductions	Balances at June 30, 2005	Amounts Due Within One Year
Governmental Activities:					
Revenue Bonds	\$214,010		(\$8,500)	\$205,510	\$8,755
Premiums/Discounts/Rebates	(2,979)	\$537	(1)	(2,443)	
Total Bonds Payable	211,031	537	(8,501)	203,067	8,755
Capital Leases	5,915	4,393	(1,018)	9,290	727
Compensated Absences	41,206	43,074	(41,206)	43,074	43,074
Policy Claim Liabilities	35,175	7,620	(5,532)	37,263	7,027
Claims and Judgments	44,129	2,140	(9,279)	36,990	2,989
Notes Payable		26	(4)	22	8
Notes Payable to Component Unit	3,167		(2,000)	1,167	1,167
Net Pension Obligation	375	246		621	
Total Governmental Activity	\$340,998	\$58,036	(\$67,540)	\$331,494	\$63,747
Business-Type Activities:					
Revenue Bonds	\$313,031	\$61,815	(\$49,458)	\$325,388	\$10,825
Premiums/Discounts/Rebates	5,107	1,227	(1,887)	4,447	
Total Bonds Payable	318,138	63,042	(51,345)	329,835	10,825
Capital Leases	2,041	32	(623)	1,450	382
Capital Leases to Component Unit	3,887		(230)	3,657	235
Compensated Absences	19,507	12,560	(15,253)	16,814	16,814
Notes Payable	11,841	7,088	(1,825)	17,104	3,223
Total Business-Type Activity	\$355,414	\$82,722	(\$69,276)	\$368,860	\$31,479
Discretely Presented Component Units:					
Revenue Bonds	\$1,393,581	\$180,000	(\$314,336)	\$1,259,245	\$137,725
Premiums/Discounts/Rebates	(7)			(7)	
Total Bonds Payable	1,393,574	180,000	(314,336)	1,259,238	137,725
Policy Claim Liabilities	7,681	1,207	(1,975)	6,913	2,437
Notes Payable	16,972		(6,500)	10,472	7,072
Total Component Unit Activity	\$1,418,227	\$181,207	(\$322,811)	\$1,276,623	\$147,234

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end

\$0.6 million of compensated absences, \$37.3 million of policy claim liabilities, and \$0.7 million of capital leases were included in the above amounts for internal service fund liabilities.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

The compensated absences liability attributable to governmental activities will be liquidated by the General Fund, special revenue, and internal service funds. In the past approximately 30.2 percent has been paid by the General Fund, 48.7 percent by special revenue funds, and the remainder by internal service funds and various other governmental funds. Primarily, the same funds that have been used in prior years will be used to liquidate the following other governmental activity long-term liabilities: policy claim liabilities will be liquidated through the State's Group Insurance and Risk Management funds; claims and judgments will be liquidated by the special revenue funds indicated within this note.

G. Conduit Debt

The Idaho Water Resource Board, a separate entity established by *Idaho Code* within the Department of Water Resources (Loan major enterprise fund), issued Water Resource Development Revenue Bonds for the promotion, construction, rehabilitation, and repair of water projects. The bonds are secured by the property financed and are payable solely from revenue of the projects. Upon payment of the bonds, ownership of the acquired facilities transfers to the entity served by the

bond issuance. Such bonds do not constitute a debt or obligation of the State or any political subdivision, agency thereof, or of the Board except to the extent of the revenues pledged under the indenture. Accordingly, these bonds are not reported in the accompanying financial statements. As of June 30, 2005, seven series of Water Resource Bonds that qualified as conduit debt were outstanding with an aggregate principal amount payable of \$71.9 million.

The Idaho Housing and Finance Association (discretely presented component unit) issued bonds to provide financial assistance to entities for the construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying investments. Upon repayment of the bonds, ownership of the constructed facilities transfers to the individuals served by the bond issuance. The Association is not obligated in any manner for repayment of these bonds. Accordingly, the bonds are not reported as Association liabilities. As of June 30, 2005, thirteen series of bonds that meet the description of conduit debt obligations were outstanding with an aggregate principal amount payable of \$39.1 million.

NOTE 13. FUND EQUITY

A. Restatement of Beginning Fund Balances and Net Assets

During fiscal year 2005 additional information became available that required the restatement of the beginning fund balances or net assets for the following funds:

The Capitol Permanent Endowment was reclassified from a nonmajor special revenue fund to the Pooled Endowment fund. This resulted in a \$6.2 million decrease in the beginning fund balance in the nonmajor special revenue funds and an increase of \$6.2 million in the beginning fund balance of the Pooled Endowment fund.

The governmental activities beginning net assets and the nonmajor special revenue funds beginning fund balance were increased by \$3.1 million to correct the effect of understating revenue in prior years.

The Idaho Housing and Finance Association was included as a discretely presented

component unit for fiscal year 2005, which increased component unit beginning net assets by \$169.1 million.

B. Net Assets Restricted by Enabling Legislation

Net assets are reported as restricted when constraints are placed on net asset use by external parties such as creditors, grantors, contributors, or other governments; or by state law through constitutional provisions or enabling legislation. Enabling legislation authorizes the state to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the State to honor.

At June 30, 2005, the government-wide Statement of Net Assets reported \$1,291.1 million of restricted net

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

assets for governmental activities and \$619.4 million of restricted net assets for business-type activities. These amounts include \$281.1 million of net assets restricted

by enabling legislation for governmental activities and \$132.6 million of net assets restricted by enabling legislation for business-type activities.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Litigation and Contingencies

At June 30, 2005, litigation and contingencies consisted of the following:

Primary Government

In *ISEEO, et al. v. Evans, et al.*, the plaintiffs allege that the current public school system does not provide a thorough education as required by the *Idaho Constitution*. Plaintiffs allege that approximately \$700 million to \$1 billion in construction expenditures will be needed to bring public schools up to standards. The case has been dismissed three times by the district court and appealed three times to the Idaho Supreme Court. The Supreme Court has remanded the case back to the district court, each time providing additional directions. Following the third remand, the district court determined that the funding system does not provide constitutionally adequate facilities in some circumstances and indicated the court would take some unspecified action if the Legislature does not address the court's concerns. The district court certified that decision for appeal to the Idaho Supreme Court. The State vigorously opposes the district court decision. If the plaintiffs are ultimately successful, the Legislature may address the judgment by raising additional state revenue, reallocating state revenue, or providing the districts the means to obtain additional revenue at the local level.

In November 1998 a Master Settlement Agreement was reached between the five largest tobacco manufacturers and 46 states. Under the terms of the Agreement, the State of Idaho anticipates receiving annual payments in perpetuity, subject to numerous adjustments. The State received cash payments of \$23.2 million during fiscal year 2005. The State Attorney General's Office anticipates that a number of tobacco manufacturers, in the spring of 2006, will commence litigation against Idaho with respect to such payments.

The State has a contingent liability for guarantee of qualified bond issuances. *Idaho Code*, Section 33-5303, requires the State to guarantee the bonds of any school district qualified by the State Treasurer. *Idaho Code*, Section 67-8716, requires the State to guarantee the bonds of any municipality qualified by the State

Treasurer. If the State is required to make the bond payment of any school district or municipality, the State shall redirect distributions normally made to the school district or municipality to reimburse the State. As of June 30, 2005, the principal amount of qualified bonds outstanding to school districts was \$438.4 million and the interest amount outstanding was \$171.1 million; the principal amount of qualified bonds outstanding to municipalities was \$11.1 million and the interest amount outstanding was \$4.5 million.

The Public School Permanent Endowment fund incurred losses in fiscal years 2001, 2002, and 2003. *Idaho Code*, Section 57-724, requires these losses be made up from the earnings reserve funds or, if those funds are insufficient, through legislative appropriation. The losses must be made up within ten years and may be made up through market value increases. If market value increases are insufficient to recover all of the losses, the statute requires legislative appropriation to fund the remainder of the losses. At June 30, 2005, cumulative losses were \$26.5 million.

The University of Idaho and the University of Idaho Foundation (UIF) have filed separate claims with the Department of Administration's Risk Management Services against the State's insurance coverage with a private insurance carrier for public employee dishonesty and faithful performance. This is a first-party insurance claim, since both the University of Idaho and the UIF are named insureds under the policy. The policy limits are \$10.0 million for public employee dishonesty and a \$5.0 million sublimit for faithful performance. If an "occurrence" would fall within both coverage categories, the covered loss would be limited to \$10.0 million. "Occurrence" under the policy means all loss caused by or involving one or more employees, whether the loss results from a single act or series of acts.

The Idaho Transportation Department faces a potential liability of \$7.9 million for unpaid contractual claims. A probable cost of \$2.1 million has been recognized as a liability with a remaining contingent liability of \$5.8 million.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

The State is also a defendant in numerous legal proceedings pertaining to matters incidental to the performance of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings, and other alleged violations of state and federal laws. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State in respect to the various proceedings. However, it is believed that any ultimate liability resulting from these suits will not have a material effect on the financial condition of the State.

Revenue from federal grants includes amounts for the recovery of overhead and other costs. The State may be required to make refunds of federal reimbursements as a result of audits. The opinion of the State is that these refunds, if any, will not have a significant effect on the financial position of the State.

Component Unit

The Idaho Life and Health Insurance Guaranty Association has not assessed or accrued for all potential shortfalls for several insolvent insurers. The total liability relating to these insolvencies is not yet determined. However, management's best estimate of future unrecorded shortfalls at this time is \$3.6 million for Executive Life. Assessments for the shortfalls will be made in future periods as amounts become due, if necessary.

B. Commitments

At June 30, 2005, commitments consisted of the following:

Primary Government

The Public Employee Retirement System has a total of \$336.1 million in outstanding commitments for investments to private equity partnerships and a private real estate joint venture.

The Idaho Transportation Department has a total of \$176.7 million in outstanding commitments for infrastructure and \$1.7 million for other capital asset related construction projects underway at year-end.

The colleges and universities estimate costs of \$101.8 million to complete a variety of capital asset related construction projects underway at year-end.

The Department of Administration has a total of \$98.6 million in outstanding commitments for capital asset related construction projects underway at year-end.

The Department of Environmental Quality (DEQ) administers two revolving loan funds. The funds provide a financing source for the construction of publicly owned wastewater and drinking water treatment facilities. As of June 30, 2005, the Clean Water Loan fund had loan commitments of \$63.4 million that are funded with approximately 80 percent federal funds and 20 percent state matching dollars. The Drinking Water Loan fund had \$22.3 million of loan commitments that are funded with approximately 80 percent federal funds and 20 percent state matching dollars. DEQ also has committed to various contracts addressing pollution remediation, best management practice implementation, and other environmental projects totaling \$6.7 million.

The Department of Correction has a contract with Corrections Corporation of America to operate a 1,250 plus bed prison. The contract expires June 30, 2009. The estimated cost for fiscal year 2006 is \$19.0 million. The Department has a contract until July 12, 2008, with Correctional Medical Services, Inc., to provide medical services for inmates, for approximately \$17.5 million.

The Department of Juvenile Corrections contracts with various private juvenile placement providers for care and rehabilitation services. Contract daily rates range from \$90 to \$350 per day. The estimated cost for fiscal year 2006 is \$12.3 million.

The State Board of Education has contracts for a total of \$7.1 million with vendors that will provide test and assessment services and computerized instruction to K-12 students.

The Dairy Products Commission annually commits to participate in a national advertising pool administered by Dairy Management, Inc. By contractual agreement, the Commission's 2005 advertising pool commitment will not exceed \$5.5 million.

The Department of Parks and Recreation is a party in a land sale contract with a promise to pay \$3.6 million to the Nature Conservancy. Currently the Idaho Department of Parks and Recreation (IDPR) has approximately \$1.3 million in equity. In the event payment is not made, IDPR and the Nature Conservancy will hold undivided ownership interest in the real property. IDPR has a total of \$10.0 million in outstanding commitments for capital asset related construction projects underway at year-end.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005**

The State Lottery contracted with GTECH, Inc., through February 18, 2007, to pay 2.99 percent of gross, weekly on-line ticket sales plus \$16,000 per week and \$75 per instant ticket vending machine placed in service per month for ongoing facilities management services and \$10,000 per week for license fees, \$96 per wireless system per month plus a \$250 installation fee per system.

The State Lottery paid \$3.6 million to GTECH, Inc., for the fiscal year ended June 30, 2005.

Component Unit

Idaho Housing and Finance Association has commitments to purchase \$1.1 million of single-family mortgages.

NOTE 15. SUBSEQUENT EVENTS

Subsequent to June 30, 2005, the following events occurred:

On August 1, 2005, the Idaho Housing and Finance Association (IHFA) issued Single-Family Mortgage Bonds 2005 Series D in the amount of \$30.0 million. Write-offs related to the IHFA July 1, 2005, bond redemptions were \$1.3 million.

On July 1, 2005, \$4.6 million was transferred from the General Fund to the Pooled Endowment fund, to make up earnings deficiencies in the Agricultural College and Charitable Institutions funds.

On December 21, 2005, the Idaho Supreme Court ruled in *ISEEO, et al. v. Evans, et al.*, that the current public school funding system does not provide constitutionally adequate facilities in some circumstances. The high court ruled that the State's method of paying for schools, which relies on local school bonds for building schools, is unconstitutional. The Idaho Supreme Court directed the Idaho Legislature to address the issue.

*State of Idaho***Required Supplementary Information****Budgetary Comparison Schedule****General Fund and Major Special Revenue Funds****For the Fiscal Year Ended June 30, 2005***(dollars in thousands)*

	General			
	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget
REVENUES				
Sales Tax	\$1,120,560	\$1,120,560	\$1,120,560	-
Individual and Corporate Taxes	1,403,807	1,403,807	1,403,807	-
Other Taxes	62,848	62,848	62,848	-
Licenses, Permits, and Fees	18,216	18,216	18,216	-
Sale of Goods and Services	47,805	47,805	47,805	-
Grants and Contributions	2,035	2,035	2,035	-
Investment Income	18,944	18,944	18,944	-
Tobacco Settlement	23,151	23,151	23,151	-
Other Income	30,385	30,385	30,385	-
Total Revenues	2,727,751	2,727,751	2,727,751	
EXPENDITURES				
General Government	646,937	647,054	573,340	\$73,714
Public Safety and Correction	191,105	195,844	192,512	3,332
Health and Human Services	22,216	22,216	22,042	174
Education	1,408,180	1,408,732	1,383,535	25,197
Economic Development	26,168	26,434	21,892	4,542
Natural Resources	28,152	28,192	27,215	977
Total Expenditures	\$2,322,758	\$2,328,472	2,220,536	\$107,936
Revenues Over (Under) Expenditures			507,215	
OTHER FINANCING SOURCES (USES)				
Capital Lease Acquisitions			26	
Sale of Capital Assets			373	
Transfers In			128,419	
Transfers Out			(720,896)	
Total Other Financing Sources (Uses)			(592,078)	
Revenues and Other Financing Sources Over (Under)			(84,863)	
Expenditures and Other Financing Uses				
Reconciling Items				
Changes Affected by Accrued Revenues			(193,676)	
Changes Affected by Accrued Expenditures			480,961	
Fund Balances - Beginning of Year			370,582	
Fund Balances - End of Year			\$573,004	

The accompanying note is an integral part of this financial schedule.

Health and Welfare				Transportation			
Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget
\$1,680	\$1,680	\$1,680	-	\$209,787	\$209,787	\$209,787	-
4,263	4,263	4,263	-	109,108	109,108	109,108	-
78,415	78,415	78,415	-	3,761	3,761	3,761	-
963,457	963,457	963,457	-	247,941	247,941	247,941	-
79	79	79	-	3,598	3,598	3,598	-
15,850	15,850	15,850	-	1,178	1,178	1,178	-
1,063,744	1,063,744	1,063,744		575,373	575,373	575,373	
1,435,696	1,522,335	1,489,079	\$33,256	705,036	709,738	573,995	\$135,743
\$1,435,696	\$1,522,335	1,489,079	\$33,256	\$705,036	\$709,738	573,995	\$135,743
		(425,335)				1,378	
		70				6,823	
		430,759					
		(196)				(15,409)	
		430,633				(8,586)	
		5,298				(7,208)	
		102,776				8,582	
		(93,442)				(5,205)	
		(12,085)				124,758	
		\$2,547				\$120,927	

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2005**

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Budgetary Process and Control

Budgets are adopted in accordance with *Idaho Code*, Sections 67-3501 through 67-3614. In September of each year, state agencies submit requests for appropriations to the Governor's Office, Division of Financial Management (DFM), so an executive budget may be prepared. The budget is generally prepared by agency, fund, program, and object and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. Legal level of budgetary control is generally maintained at the same level of detail as appropriated. Appropriated funds include the General Fund, special revenue funds, enterprise funds, internal service funds, earnings of the permanent funds, and pension trust funds. The appropriated funds are either appropriated annually or on a continuous basis. For those funds appropriated on a continuous basis, appropriation equals expenditures to the extent of available cash. Unexpended appropriation balances generally lapse at fiscal year-end unless reappropriated by the Legislature.

The Governor's budget recommendations are presented to the Legislature within the first five days of each regular legislative session, which begins in January. The Joint Finance and Appropriations Committee reviews the Governor's recommended budget, makes amendments, and prepares the annual appropriation bills for submission to both houses of the Legislature. A simple majority vote by both houses of the Legislature is required to pass the appropriation bills. The appropriation bills become the State's authorized operating budget upon the Governor's signature, or if allowed, become law without the Governor's signature.

Agencies may request additional appropriations for the current year, which may be granted under authority of the Legislature. If it is anticipated expenditures may exceed available cash, the State Board of Examiners (SBE) may authorize reduction of a portion of the General Fund appropriation. The Governor may issue an executive order for temporary reduction of spending authority, which is recorded in the accounting system as a negative supplemental appropriation.

Limitations exist regarding the extent to which management may modify an appropriation. At no time, without legislative authority, may an appropriation be transferred from one fund to another. The following adjustments may be made, with the appropriate approval:

Idaho Code, Section 67-3511(1), allows agencies to transfer spending authority between objects within a fund and program, with the exception of personnel costs. Appropriations for personnel costs may be transferred to other objects, but appropriations for other costs may not be transferred to personnel. Per *Idaho Code*, Section 67-3511(3), appropriations for capital outlay may not be used for any other purpose, but appropriations for other objects may be transferred to capital outlay. The SBE must approve object transfers.

Idaho Code, Section 67-3511(2), allows agencies to transfer spending authority from one program to another within an agency, provided the transfer is not more than 10 percent cumulative change from the appropriated amount for any program affected by the transfer. DFM and the SBE must approve these transfers. The Legislature must approve transfers above 10 percent cumulative change.

Should any change occur that is not within the described limitations, legal compliance is not achieved.

Budgetary Basis of Accounting

The State's legal budget is prepared using cash basis records. Revenues are generally recognized when cash is received. Expenditures are recorded when the related cash disbursement occurs. Encumbrances are allowed for budgetary control purposes. Fund balances are reserved for obligations incurred for goods or services that have not been received. Encumbrances may be carried over to the next fiscal year with the approval of the DFM. The Budgetary Comparison Schedule is prepared on the budgetary basis and includes this variation from generally accepted accounting principles. The reconciliation at the bottom of the budget and actual schedule shows the difference between the budgetary basis and GAAP.

The State does not adopt a revenue budget. For financial reporting purposes, the budget and actual schedule reflects budgeted revenues as being equal to actual revenues.

The State issues a separate Legal Basis Financial Report, which demonstrates legal compliance with the budget. A copy of this report may be obtained by contacting the Office of the State Controller, P.O. Box 83720, Boise, Idaho, 83720, or may be viewed online at www.sco.state.id.us. Look under "Accounting," and then "Financial Reports and Financial Information."

Required Supplementary Information For the Fiscal Year Ended June 30, 2005

INFRASTRUCTURE – MODIFIED APPROACH REPORTING

Under GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, governments are allowed an alternative to depreciation for their infrastructure assets, referred to as the modified approach. Using the modified approach, governments report maintenance and preservation expenses and do not report depreciation expense on qualifying assets. In order to use the modified approach, the government must manage the infrastructure assets using an asset management system and maintain those assets at established condition levels. The asset management system must meet the following requirements:

- Maintain an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of eligible assets and summarize the results using a measurement scale,
- Annually estimate the cost to maintain and preserve the assets at the condition level established, and
- Document the condition level at which the assets are being actually preserved and maintained.

The State of Idaho has chosen to use the modified approach in reporting the roadway network, which consists of approximately 11,852 lane miles.

Measurement Scale

The Idaho Transportation Department (ITD) determines the condition of the State’s roadway surfaces by use of the Pavement Management System. The roadway surface condition is determined using two pavement-condition data elements, road roughness and pavement distress, collected as follows:

Road Roughness is a primary indicator of pavement serviceability or the ability of a pavement to meet the demands and expectations of motorists. In Idaho, the public’s perception of the state highway system is very important. For that reason, a roughness index (RI) was adopted that correlates the longitudinal profile of the road surface to an index based upon the public’s perception of road roughness. The RI ranges from 0.0 (extremely rough) to 5.0 (smooth).

A South Dakota-type profilometer is currently used by ITD to measure pavement roughness. This instrument uses laser sensors and personal computers and is mounted in a vehicle that travels at normal speeds and collects and stores road-profile information at one-foot intervals. Longitudinal profiles of all pavement management sections (PMS) statewide are obtained annually.

Pavement Distress (Cracking) is another important indicator of pavement condition. The video-inspection vehicle used to collect profile information also collects pavement video of the entire state highway system each year. The pavement management engineer then uses this video or actual field observations to determine the type, extent, and severity of cracking within each PMS. Based upon this input, a cracking index (CI) is calculated for each section. The CI is a rating very similar to the RI with 5.0 corresponding to a section with little or no cracking and 0.0 representing a section with severe cracking.

Pavement surface condition assessment is dependent upon functional classification and is divided into two categories: interstates and arterials, and collectors. Pavement surface condition is determined by applying the lower of the CI or RI to the measurement ranges shown in the following table:

Pavement Condition	Interstates and Arterials	Collectors
	Lower Index of Cracking (CI) or Roughness (RI)	
Good	(CI or RI) > 3.0	(CI or RI) > 3.0
Fair	≥ 2.5 (CI or RI) ≤ 3.0	≥ 2.0 (CI or RI) ≤ 3.0
Poor	≥ 2.0 (CI or RI) < 2.5	≥ 1.5 (CI or RI) < 2.0
Very Poor	(CI or RI) < 2.0	(CI or RI) < 1.5

Established Condition Level

The ITD has established the condition level that no more than 18 percent of pavement shall be in poor or very poor condition. In fiscal year 2004 the assessed level rose to 19 percent due to the following:

- Fewer pavement miles were restored than became substandard, and
- Fewer highway projects were started due to federal appropriation uncertainties.

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2005**

Assessed Condition Ratings of State Roadways

**Most Recent Five Complete Condition Assessments
Percent of Total Lane Miles per Pavement Condition**

	2004		2003		2002		2001		2000	
Good	7,154	60%	7,196	61%	7,267	61%	7,094	60%	6,833	58%
Fair	2,453	21%	2,691	23%	2,801	24%	2,610	22%	2,777	24%
Poor	1,735	15%	1,435	12%	1,170	10%	1,255	11%	1,176	10%
Very Poor	510	4%	497	4%	593	5%	820	7%	970	8%
Total Lane Miles	11,852	100%	11,819	100%	11,831	100%	11,779	100%	11,756	100%

Estimated and Actual Costs to Maintain

The information below reflects the State's estimate of spending necessary to preserve and maintain the roads at, or above, the established condition level presented above, and the actual amount spent during the past six fiscal years (*dollars in thousands*):

	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001	FY2000
Estimated	\$69,200	\$67,156	\$65,200	\$63,922	\$62,000	\$61,544	\$60,313
Actual		79,310	81,058	78,133	57,260	68,278	69,268

Actual costs exceeded estimated costs in fiscal year 2005 by 18.1 percent. This variance was due to estimates being based on historical costs and the recent, unexpected increase in fuel cost.



PENSION

Schedule of Funding Progress – Judges' Retirement Fund (*dollars in thousands*):

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial	Actuarial	Accrued	Unfunded	Funded	Annual	UAAL as a
Valuation	Value	Liability	AAL	Ratios	Covered	Percentage
Date	of	(AAL)	(UAAL)	(1) : (2)	Payroll	of Covered
	Assets	Entry	(2) - (1)			Payroll
		Age				(3) : (5)
6/30/03	\$46,818	\$59,913	\$13,095	78.1%	\$4,613	284
6/30/04	51,006	59,453	8,447	85.8%	4,799	176
6/30/05	54,036	61,548	7,512	87.8%	4,799	157

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**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

AUDITOR'S REPORTS



**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

AUDITOR'S REPORTS

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Legislative Services Office Idaho State Legislature

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December 29, 2005

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards

Honorable Dirk Kempthorne, Governor
Members of the Idaho State Legislature
Honorable Keith Johnson, Controller

We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Idaho, as of and for the fiscal year ended June 30, 2005, that collectively comprise the State's basic financial statements, and have issued our report thereon dated December 29, 2005. Our report contained an unqualified opinion on the basic financial statements. Our opinions expressed therein, insofar as they relate to component units whose financial statements were audited by other auditors, were based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic financial statements are free of material misstatement. The financial statements of the Idaho Life and Health Insurance Guaranty Association, Idaho Housing and Finance Association, and IDEAL College Savings Program were not audited in accordance with *Government Auditing Standards*, and accordingly, are not covered by our reports in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Idaho's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Idaho's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as findings 05S-5, 05S-6, 05S-8, 05S-10, 05S-11, 05S-15, 05S-20, and 05S-21.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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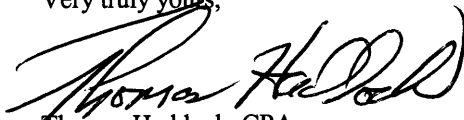
Compliance and Other Matters

As part of obtaining reasonable assurance as to whether the State of Idaho's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Findings and Recommendations as findings 05S-3, 05S-9, 05S-16, and 05S-17.

We also noted certain additional matters that we reported to the management of the State of Idaho in separate correspondence issued at the State agency level.

This report is intended solely for the information and use of the management of the State of Idaho, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas Haddock", written over a horizontal line.

Thomas Haddock, CPA
Legislative Audits



Legislative Services Office Idaho State Legislature

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April 19, 2006
December 29, 2005

Independent Auditor's Report on
Compliance With Requirements Applicable
to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133

Honorable Dirk Kempthorne, Governor
Members of the Idaho State Legislature
Honorable Keith Johnson, Controller

Compliance

We have audited the compliance of the State of Idaho with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005, except for the following programs. We did not audit the colleges and universities, with \$313.9 million in federal awards, nor the Idaho Housing and Finance Association, with \$42.5 million in federal awards. These awards are not included in the Supplementary Schedules of Federal Awards contained in this report. These entities were audited by other auditors who have furnished these reports to the proper entities. The State of Idaho's major federal programs, except as described above, are identified in the Summary of the Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Idaho's management. Our responsibility is to express an opinion on the State of Idaho's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, and *OMB Circular A-133*, require that we plan and perform the audit to obtain reasonable assurance as to whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Idaho's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Idaho's compliance with those requirements.

In our opinion, the State of Idaho complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, that are required to be reported in accordance with *OMB Circular A-133*, and that are described in the accompanying schedule of findings and questioned costs as findings 05F-1, 05F-6, 05F-9, and 05F-12.

Internal Control Over Compliance

The management of the State of Idaho is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and

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performing our audit, we considered the State of Idaho's internal control over compliance with requirements that could have a direct and material effect on a major federal program, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Idaho's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 05F-2, 05F-3, 05F-4, 05F-5, 05F-7, 05F-8, 05F-10, 05F-11, and 05F-13.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected, within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

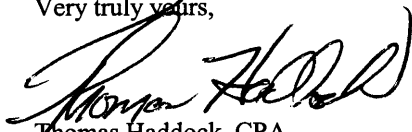
Schedules of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Idaho as of and for the year ended June 30, 2005, and have issued our report thereon dated December 29, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Idaho's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by *OMB Circular A-133*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our report contained an unqualified opinion on the basic financial statements. Our opinion expressed therein, insofar as it relates to component units whose financial statements were audited by other auditors, was based solely on the reports of the other auditors.

This report is intended solely for the information and use of the management of the State of Idaho, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Thomas Haddock', is written over a horizontal line.

Thomas Haddock, CPA
Legislative Audits

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**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**SUPPLEMENTARY SCHEDULES OF
EXPENDITURES OF FEDERAL AWARDS**



**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**SUPPLEMENTARY SCHEDULES OF EXPENDITURES
OF FEDERAL AWARDS**

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**SUPPLEMENTARY SCHEDULE
OF
EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT**

**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
DEPARTMENT OF AGRICULTURE				
FOOD STAMP CLUSTER:				
Food Stamps (Note 2)	Health and Welfare, Department of	10.551	\$100,888,022	NC
State Admin. Match/Food Stamps Program	Health and Welfare, Department of	10.561	8,420,906	
TOTAL FOOD STAMP CLUSTER			<u>\$109,308,928</u>	
CHILD NUTRITION CLUSTER:				
School Breakfast Program	Superintendent of Public Instruction	10.553	\$8,787,566	
National School Lunch Program	Superintendent of Public Instruction	10.555	31,038,487	
Special Milk Program for Children	Superintendent of Public Instruction	10.556	217,790	
Summer Food Service Program for Children	Superintendent of Public Instruction	10.559	2,261,581	
TOTAL CHILD NUTRITION CLUSTER			<u>\$42,305,424</u>	
EMERGENCY FOOD CLUSTER:				
Emergency Food Assistance Program (Administration)	Health and Welfare, Department of	10.568	\$231,351	NC
Emergency Food Assistance Program (Commodities) (Note 2)	Health and Welfare, Department of	10.569	1,037,936	
TOTAL EMERGENCY FOOD CLUSTER			<u>\$1,269,287</u>	
NON-CLUSTERED PROGRAMS:				
Plant and Animal Disease Control	Agriculture, Department of	10.025	\$1,627,132	NC
Plant and Animal Disease Control	Lands, Department of	10.025	198,038	
Conservation Resources	Lands, Department of	10.069	18,149	
Inspection Grading and Standardization	Agriculture, Department of	10.162	68,421	
Market Protection and Promotion	Agriculture, Department of	10.163	40,944	
Food Donation (Note 2)	Superintendent of Public Instruction	10.550	4,065,029	
Supplemental Food for Women, Infants, and Children	Health and Welfare, Department of	10.557	20,246,593	
Child and Adult Care Food Program	Superintendent of Public Instruction	10.558	4,703,474	
Administrative Expense for Child Nutrition	Superintendent of Public Instruction	10.560	725,706	
Team Nutrition Training	Superintendent of Public Instruction	10.574	83,009	
Team Nutrition Training (Note 3)	Superintendent of Public Instruction	10.574	3,749	PT
Cooperative Forestry Assistance	Agriculture, Department of	10.664	890,661	
Cooperative Forestry Assistance	Lands, Department of	10.664	5,127,699	
Forest Land Enhancement Program	Lands, Department of	10.667	112,232	
Rural and Community Fire Planning	Commerce and Labor, Department of	10.670	201,717	
Rural Forestry Development	Commerce and Labor, Department of	10.672	243,949	
Rural Forestry Development	Lands, Department of	10.672	168,906	
Forest Legacy Program	Lands, Department of	10.676	3,457,000	
Idaho Rural Partnership	Commerce and Labor, Department of	10.769	104,973	
Public Television Station Digital Transition Grant Program	Idaho Public Television	10.861	205,373	
Soil Survey Agreement	Agriculture, Department of	10.903	27,000	
Watershed Survey and Planning	Agriculture, Department of	10.906	430,420	
Noxious Weed Fire Plan	Agriculture, Department of	10.999	23,277	
Miscellaneous Resource Conservation Grants	Agriculture, Department of	10.999	42,620	
Miscellaneous Forest Service Grants	Fish and Game, Department of	10.999	801,245	
Harriman State Park Restoration	Parks and Recreation, Department of	10.999	9,213	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$43,626,529</u>	
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$196,510,168</u>	
DEPARTMENT OF COMMERCE				
Economic Adjustment Assistance	Commerce and Labor, Department of	11.307	\$42,764	
Interjurisdictional Fisheries Act of 1986	Fish and Game, Department of	11.407	121	
Columbia River Fisheries Development Program	Fish and Game, Department of	11.436	1,247,899	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Pacific Coast Salmon Recovery	Fish and Game, Department of	11.438	181,204	
Pacific Coast Salmon Recovery	Species Conservation, Office of	11.438	119,692	
Regional Fishery Management Council	Fish and Game, Department of	11.441	17,862	
Habitat Conservation	Fish and Game, Department of	11.463	11,924	
Public Telecommunications Facilities	Idaho Public Television	11.550	105,360	
Miscellaneous NOAA Grants	Fish and Game, Department of	11.999	782,724	
TOTAL DEPARTMENT OF COMMERCE			\$2,509,550	
DEPARTMENT OF DEFENSE				
Procurement Technical Assistance for Business Firms	Commerce and Labor, Department of	12.002	\$199,012	
Slickspot Peppergrass Control	Agriculture, Department of	12.100	976	
Reimbursement of Technical Services	Environmental Quality, Department of	12.113	62,895	
National Guard Operations and Maintenance	Military, Division of	12.401	16,679,877	
Miscellaneous Army Corps of Engineers Grants	Fish and Game, Department of	12.999	282,928	
TOTAL DEPARTMENT OF DEFENSE			\$17,225,688	
DEPARTMENT OF HOUSING/URBAN DEVELOPMENT				
Manufactured Housing - Construction Standards	Building Safety, Division of	14.171	\$45,227	
Community Development Block Grant	Commerce and Labor, Department of	14.228	9,740,103	
Community Development Block Grant-Special Projects (Note 3)	Library, Idaho State	14.246	21,102	PT
TOTAL DEPARTMENT OF HOUSING/URBAN DEVELOPMENT			\$9,806,432	
DEPARTMENT OF INTERIOR				
FISH AND WILDLIFE CLUSTER:				
Sport Fish Restoration	Fish and Game, Department of	15.605	\$5,038,209	
Wildlife Restoration	Fish and Game, Department of	15.611	4,245,283	
Wildlife Restoration	Species Conservation, Office of	15.611	324,406	
TOTAL FISH AND WILDLIFE CLUSTER			\$9,607,898	
NON-CLUSTERED PROGRAMS:				
Indian Education - Assistance to Schools	Superintendent of Public Instruction	15.130	\$47,607	
Cooperative Inspection Agreements States	Historical Society, Idaho State	15.222	23,886	
Wildland Urban Interface	Lands, Department of	15.228	61,752	
Fish and Wildlife Management	Fish and Game, Department of	15.608	103,059	
Cooperative Endangered Species Conservation, Office of Fund	Agriculture, Department of	15.615	19,006	
Cooperative Endangered Species Conservation, Office of Fund	Fish and Game, Department of	15.615	246,452	
Cooperative Endangered Species Conservation, Office of Fund	Species Conservation, Office of	15.615	581,928	
Sport Fishing and Boating Safety Act	Parks and Recreation, Department of	15.622	40,000	
Wildlife Conservation and Restoration	Fish and Game, Department of	15.625	29,766	
Landowner Incentive Program	Agriculture, Department of	15.633	46,690	
Landowner Incentive Program	Fish and Game, Department of	15.633	100,004	
State Wildlife Grants	Fish and Game, Department of	15.634	545,950	
Research and Data Acquisition	Administration, Department of	15.808	15,010	
Historic Preservation Fund Grants-In-Aid	Historical Society, Idaho State	15.904	559,302	
Lewis and Clark Preservation Projects (Note 3)	Historical Society, Idaho State	15.910	136,947	PT
Outdoor Recreation - Acquisition and Development	Parks and Recreation, Department of	15.916	553,332	
DOI BLM Wood River	Environmental Quality, Department of	15.999	28,316	
Noxious Weed Strategic Plan	Agriculture, Department of	15.999	624,237	
Fish and Wildlife Service Fish Restoration	Agriculture, Department of	15.999	16,917	
Coeur d'Alene Basin Projects	Environmental Quality, Department of	15.999	156,423	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Miscellaneous Fish and Wildlife Service Grants	Fish and Game, Department of	15.999	5,056,350	
Miscellaneous Bureau of Reclamation Grants	Fish and Game, Department of	15.999	769,089	
Miscellaneous Bureau of Land Management Grants	Fish and Game, Department of	15.999	466,909	
Cost Share Lewis and Clark	Historical Society, Idaho State	15.999	39,690	
Historic Preservation and Archaeology Month	Historical Society, Idaho State	15.999	331	
Miscellaneous Bureau of Reclamation Grants	Water Resources, Department of	15.999	3,810,593	
BLM Trail Dozer	Parks and Recreation, Department of	15.999	14,111	
Lake Walcott Projects-Bureau of Reclamation	Parks and Recreation, Department of	15.999	65,663	
City of Rocks National Park Service	Parks and Recreation, Department of	15.999	363,683	
Lake Cascade Park Accessibility	Parks and Recreation, Department of	15.999	42,183	
Cascade Reservoir MOA-Bureau of Reclamation	Parks and Recreation, Department of	15.999	176,445	
Miscellaneous Department of Interior Grants	Parks and Recreation, Department of	15.999	7,748	
Marijuana Eradication Interior Grants	Idaho State Police	15.999	8,916	
TOTAL NON-CLUSTERED PROGRAMS			\$14,758,295	
TOTAL DEPARTMENT OF INTERIOR			\$24,366,193	
DEPARTMENT OF JUSTICE				
Serious and Violent Offender Reentry	Juvenile Corrections, Department of	16.202	\$183,649	
Juvenile Accountability Incentive Block Grant	Juvenile Corrections, Department of	16.523	1,611,843	
Juvenile Delinquency Prevention - State Grant	Juvenile Corrections, Department of	16.540	725,371	
Title V Delinquency Prevention	Juvenile Corrections, Department of	16.548	114,430	
JJ Challenge	Juvenile Corrections, Department of	16.549	37,936	
Criminal Justice Statistical Clearinghouse	Idaho State Police	16.550	50,000	
National Criminal History	Idaho State Police	16.554	63,159	
National Forensic Science Improvement	Idaho State Police	16.560	66,134	
Crime Lab Improvement	Idaho State Police	16.564	11,657	
Crime Victim Assistance	Health and Welfare, Department of	16.575	2,326,470	
Crime Victims Compensation	Industrial Commission	16.576	607,692	
Edward Byrne Formula Grants	Correction, Department of	16.579	406,644	
Edward Byrne Formula Grants	Idaho State Police	16.579	2,942,057	
State Court Improve. - Edward Byrne Discretionary Grants (Note 3)	Judicial Department	16.580	29,893	PT
Drug Intervention	Correction, Department of	16.586	102,482	
Violence Against Women Formula Grants	Idaho State Police	16.588	882,171	
Local Law Enforcement Block Grant	Idaho State Police	16.592	128,002	
Residential Substance Abuse for State Prisoners	Juvenile Corrections, Department of	16.593	144,323	
Residential Substance Abuse for State Prisoners	Idaho State Police	16.593	375,366	
State Criminal Alien Assistance	Correction, Department of	16.606	320,039	
Project Safe Neighborhoods	Idaho State Police	16.609	126,056	
Community Policing Grants	Idaho State Police	16.710	74,440	
Enforcing Underage Drinking Laws	Juvenile Corrections, Department of	16.727	319,969	
Mental Health Courts	Judicial Department	16.999	49,242	
Drug Courts Programs	Judicial Department	16.999	17,567	
Miscellaneous Department of Justice Grants	Judicial Department	16.999	38,238	
Drug Diversion Program	Pharmacy, Board of	16.999	53,140	
Marijuana Eradication Drug Enforcement Administration	Idaho State Police	16.999	36,718	
Miscellaneous Department of Justice Grants	Idaho State Police	16.999	17,639	
Organized Crime	Idaho State Police	16.999	51,209	
TOTAL DEPARTMENT OF JUSTICE			\$11,913,536	
DEPARTMENT OF LABOR				
EMPLOYMENT SERVICE CLUSTER:				
Employment Service	Commerce and Labor, Department of	17.207	\$7,440,335	
Disabled Veterans Outreach Program	Commerce and Labor, Department of	17.801	300,077	
Local Veterans Employment Program	Commerce and Labor, Department of	17.804	698,483	
TOTAL EMPLOYMENT SERVICE CLUSTER			\$8,438,895	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
WORK FORCE INVESTMENT ACT CLUSTER:				
Workforce Investment Act - Adult	Commerce and Labor, Department of	17.258	\$3,481,816	
Workforce Investment Act - Youth	Commerce and Labor, Department of	17.259	4,419,140	
Workforce Investment Act - Dislocated Workers	Commerce and Labor, Department of	17.260	6,989,918	
TOTAL WORK FORCE INVESTMENT ACT CLUSTER			\$14,890,874	
NON-CLUSTERED PROGRAMS:				
Labor Force Statistics	Commerce and Labor, Department of	17.002	\$725,729	
Compensation and Working Conditions	Industrial Commission	17.005	2,140	
Labor Certification for Alien Workers	Commerce and Labor, Department of	17.203	270,600	
Unemployment Insurance	Commerce and Labor, Department of	17.225	157,090,589	
Senior Community Service Employment Program	Aging, Idaho Commission on	17.235	425,648	
Senior Community Service Employment Program	Commerce and Labor, Department of	17.235	103,579	
Trade Adjustment Assistance: Workers	Commerce and Labor, Department of	17.245	2,909,881	
Work Incentives Grant	Commerce and Labor, Department of	17.266	88,910	
Transition Assist Program for Vets	Commerce and Labor, Department of	17.807	10,685	
TOTAL NON-CLUSTERED PROGRAMS			\$161,627,761	
TOTAL DEPARTMENT OF LABOR			\$184,957,530	
DEPARTMENT OF TRANSPORTATION				
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:				
Highway Planning and Construction	Idaho Transportation Department	20.205	\$233,069,418	
TOTAL HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			\$233,069,418	
HIGHWAY SAFETY CLUSTER:				
State and Community Highway Safety	Idaho Transportation Department	20.600	\$988,367	
Alcohol Traffic Safety and Drunk Driving Prevention	Idaho Transportation Department	20.601	258,785	
Occupant Protection	Idaho Transportation Department	20.602	31,917	
Traffic Records System Grants	Idaho Transportation Department	20.603	12,728	
Incentive Grants for Seat Belts	Idaho Transportation Department	20.604	445,310	
TOTAL HIGHWAY SAFETY CLUSTER:			\$1,737,107	
NON-CLUSTERED PROGRAMS:				
Airport Improvement Program	Idaho Transportation Department	20.106	\$916,707	
Motor Carrier Safety Assistance Program	Idaho State Police	20.218	1,734,382	
National Recreation Trails	Parks and Recreation, Department of	20.219	793,490	
Urban Mass Transportation Studies	Idaho Transportation Department	20.505	697,698	
Public Transportation for Nonurbanized Areas	Idaho Transportation Department	20.509	1,943,576	
Assistance for Elderly and Disabled	Idaho Transportation Department	20.513	190,766	
Transit Planning and Research	Idaho Transportation Department	20.514	699	
State Planning and Research	Idaho Transportation Department	20.515	51,133	
Pipeline Safety	Public Utilities Commission	20.700	81,831	
Interagency Hazardous Materials Training Grants	Military, Division of	20.703	43,533	
Miscellaneous Highway Administration Grants	Revenue and Taxation, Department of	20.999	88,861	
TOTAL NON-CLUSTERED PROGRAMS			\$6,542,676	
TOTAL DEPARTMENT OF TRANSPORTATION			\$241,349,201	
DEPARTMENT OF THE TREASURY				
Miscellaneous Treasury Grant	Idaho State Police	21.999	\$108,350	
TOTAL DEPARTMENT OF THE TREASURY			\$108,350	
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
Employment Discrimination	Human Rights Commission	30.002	\$184,516	
TOTAL EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			\$184,516	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
FEDERAL COMMUNICATIONS COMMISSION				
Miscellaneous Federal Communications Comm. Grants	Juvenile Corrections, Department of	32.999	\$24,434	
TOTAL FEDERAL COMMUNICATIONS COMMISSION			<u>\$24,434</u>	
GENERAL SERVICES ADMINISTRATION				
Donation of Federal Surplus Personal Property (Note 2)	Administration, Department of	39.003	\$4,500,360	NC
Election Reform	Secretary of State	39.999	2,519,965	
TOTAL GENERAL SERVICES ADMINISTRATION			<u>\$7,020,325</u>	
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
Aerospace Education Services Program	Water Resources, Department of	43.001	\$156,783	
TOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			<u>\$156,783</u>	
NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES				
Promotion of the Arts Grants to Organizations and Individuals	Arts, Commission on the	45.024	\$20,000	
Promotion of the Arts-Partnership Agreements	Arts, Commission on the	45.025	480,800	
Promotion of the Arts-Leadership Initiatives	Arts, Commission on the	45.026	25,000	
Challenge America	Arts, Commission on the	45.027	124,000	
Cultural Roots	Historical Society, Idaho State	45.166	362	
State Library Program	Library, Idaho State	45.310	1,082,770	
TOTAL NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES			<u>\$1,732,932</u>	
DEPARTMENT OF VETERANS AFFAIRS				
Construction of State Home Facilities	Veterans Services, Division of	64.005	\$259,487	
Veterans Nursing Home Care	Veterans Services, Division of	64.015	5,568,262	
State Cemetery Grants	Veterans Services, Division of	64.203	456,632	
Miscellaneous Veterans Affairs Grants	Superintendent of Public Instruction	64.999	117,624	
TOTAL DEPARTMENT OF VETERANS AFFAIRS			<u>\$6,402,005</u>	
ENVIRONMENTAL PROTECTION AGENCY				
Air Pollution Control Program	Environmental Quality, Department of	66.001	\$1,898,222	
Air Pollution Control Program (Note 2)	Environmental Quality, Department of	66.001	220,777	NC
Indoor Radon Program	Health and Welfare, Department of	66.032	88,858	
Hazardous and Toxic Air Pollutants (Note 3)	Environmental Quality, Department of	66.034	18,992	PT
Clean Air Program	Health and Welfare, Department of	66.034	34,021	
Water Pollution Control	Environmental Quality, Department of	66.419	1,600,998	
Special Projects Safe Drinking Water	Environmental Quality, Department of	66.424	5,842	
Public Water System Supervision Program	Environmental Quality, Department of	66.432	1,181,905	
Underground Water Source Protection	Water Resources, Department of	66.433	66,990	
Surveys, Studies, Investigations, and Special Grants	Environmental Quality, Department of	66.436	16,155	
Wastewater Construction Mgmt	Environmental Quality, Department of	66.438	39,466	
Water Quality Management Planning	Environmental Quality, Department of	66.454	90,957	
Capitalization for Clean Water State Revolving Fund	Environmental Quality, Department of	66.458	6,592,777	
Non-Point Source Implementation	Environmental Quality, Department of	66.460	2,824,670	
Wetlands Protection	Fish and Game, Department of	66.461	179,634	
Wetlands Protection	Water Resources, Department of	66.461	10,670	
Pollutant Discharge Elimination	Environmental Quality, Department of	66.463	224,896	
Capitalization Grant for Drinking Water State Revolving Fund	Environmental Quality, Department of	66.468	6,882,815	
Operator Certification Water Systems	Environmental Quality, Department of	66.471	242,957	
Water Protection for States	Environmental Quality, Department of	66.474	52,366	
Western Ecology Pilot E-Map	Environmental Quality, Department of	66.500	147,871	
Surveys, Studies, Investigations, and Special Grants	Environmental Quality, Department of	66.606	1,669,270	
Kootenai Tribe Agreement (Note 3)	Environmental Quality, Department of	66.606	11,292	PT

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Environmental Information Exchange	Environmental Quality, Department of	66.608	462,185	
Protection of Children and Older Adults from Env. Health Risks	Health and Welfare, Department of	66.609	13,363	
Pesticides Enforcement Cooperative Agreement	Agriculture, Department of	66.700	466,734	
Pollution Prevention Grants	Environmental Quality, Department of	66.708	174,105	
Source Reduction Assistance	Environmental Quality, Department of	66.717	7,956	
Source Reduction Assistance (Note 3)	Environmental Quality, Department of	66.717	9,076	PT
Hazardous Waste Management	Environmental Quality, Department of	66.801	423,685	
Superfund Specific Cooperative Agreement	Environmental Quality, Department of	66.802	8,913,376	
State and Tribal Underground Storage Tank Program	Environmental Quality, Department of	66.804	144,902	
Leaking Underground Storage Tank Trust	Environmental Quality, Department of	66.805	588,081	
Solid Waste Management Assistance	Environmental Quality, Department of	66.808	475	
Superfund State and Indian Tribe Core Program Coop. Agreements	Environmental Quality, Department of	66.809	301,626	
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	683,860	
TOTAL ENVIRONMENTAL PROTECTION AGENCY			\$36,291,825	
DEPARTMENT OF ENERGY				
State Energy Conservation Program	Water Resources, Department of	81.041	\$963,192	
Weatherization Assistance for Low-Income Persons	Health and Welfare, Department of	81.042	1,808,146	
Regional Biomass Energy Programs	Water Resources, Department of	81.079	55,319	
Compressed Natural Gas	Water Resources, Department of	81.086	3,848	
Remedial Action Nuclear Waste Technology	Environmental Quality, Department of	81.092	425,987	
Waste Isolation Pilot Program for Transport of Transuranic Waste (Note 3)	Environmental Quality, Department of	81.106	219,717	PT
Renewable Energy Projects	Water Resources, Department of	81.117	106,815	
Wind Energy Project (Note 3)	Water Resources, Department of	81.117	9,679	PT
State Energy Special Projects	Water Resources, Department of	81.119	442,086	
Environmental Permitting INEEL Oversight	Environmental Quality, Department of	81.502	2,946,410	
Miscellaneous Bonneville Power Grants	Fish and Game, Department of	81.999	6,689,151	
Weatherization Conference	Health and Welfare, Department of	81.999	522,921	
Bonneville Power Pilot Program	Water Resources, Department of	81.999	231,755	
TOTAL DEPARTMENT OF ENERGY			\$14,425,026	
DEPARTMENT OF EDUCATION				
SPECIAL EDUCATION CLUSTER:				
Special Education-Grants to States	Superintendent of Public Instruction	84.027	\$43,769,108	
Preschool Handicapped (Title VI-B)	Superintendent of Public Instruction	84.173	2,209,342	
TOTAL SPECIAL EDUCATION CLUSTER			\$45,978,450	
NON-CLUSTERED PROGRAMS				
Adult Basic Education	Superintendent of Public Instruction	84.002	\$2,435,433	
Educationally Deprived Children (Title 1)	Superintendent of Public Instruction	84.010	40,122,472	
Migrant Education - Basic State Grant	Superintendent of Public Instruction	84.011	4,401,300	
Neglected or Delinquent Children (Title 1)	Superintendent of Public Instruction	84.013	258,691	
Vocational Education - Basic Grant	Professional-Technical Education, Division of	84.048	6,711,925	
Educational Assistance Partnership	Education, State Board of	84.069	158,345	
Rehabilitation Services -Basic Support	Blind and Visually Impaired, Comm. for the	84.126	1,815,323	
Rehabilitation Services -Basic Support	Vocational Rehabilitation, Division of	84.126	13,255,556	
Rehabilitation Services -Special Projects	Vocational Rehabilitation, Division of	84.128	143,885	
Independent Living State Grants	Blind and Visually Impaired, Comm. for the	84.169	133,291	
Independent Living State Grants	Vocational Rehabilitation, Division of	84.169	108,824	
Independent Living for Older Blind	Blind and Visually Impaired, Comm. for the	84.177	283,321	
Special Education- Grants for Infants and Families with Disabilities	Health and Welfare, Department of	84.181	2,194,384	
Safe and Drug-Free Schools	Superintendent of Public Instruction	84.184	167,622	
Robert C. Byrd Honors Scholarship	Education, State Board of	84.185	210,499	
Robert C. Byrd Honors Scholarship	Superintendent of Public Instruction	84.185	(750)	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Safe and Drug-Free Schools	Superintendent of Public Instruction	84.186	2,065,568	
Supported Employment for Handicapped	Blind and Visually Impaired, Comm. for the	84.187	4,656	
Supported Employment for Handicapped	Vocational Rehabilitation, Division of	84.187	246,008	
Bilingual Education	Superintendent of Public Instruction	84.194	(732)	
Education for Homeless Children	Superintendent of Public Instruction	84.196	247,090	
Even-Start Local Education	Superintendent of Public Instruction	84.213	711,471	
Character Education	Superintendent of Public Instruction	84.215	527,892	
Projects with Industry	Professional-Technical Education, Division of	84.234	395,619	
Tech-Prep Education	Professional-Technical Education, Division of	84.243	350,948	
Vocational Rehabilitation, Division of In Service Training	Blind and Visually Impaired, Comm. for the	84.265	32,046	
Vocational Rehabilitation, Division of In Service Training	Vocational Rehabilitation, Division of	84.265	50,992	
Charter Public Schools	Superintendent of Public Instruction	84.282	1,656,464	
Twenty-First Century Learning Centers	Superintendent of Public Instruction	84.287	2,744,798	
Ready-to-Learn Television	Idaho Public Television	84.295	50,582	
Innovative Education (Title VI)	Superintendent of Public Instruction	84.298	1,508,278	
Civic Education-Cooperative Education Exchange Program (Note 3)	Superintendent of Public Instruction	84.304	40,251	PT
Technology Literacy Challenge Fund	Superintendent of Public Instruction	84.318	3,643,636	
Special Education-State Personnel Development	Superintendent of Public Instruction	84.323	761,556	
Special Education-Children with Disabilities	Superintendent of Public Instruction	84.326	48,645	
Advance Placement	Education, State Board of	84.330	7,488	
Comprehensive School Reform	Superintendent of Public Instruction	84.332	532,820	
Teacher Quality Enhancement Grant	Education, State Board of	84.336	5,364	
Community Technology Centers	Superintendent of Public Instruction	84.341	53,208	
Transition to Teaching	Education, State Board of	84.350	11,162	
Reading First State Grants	Superintendent of Public Instruction	84.357	4,129,511	
Rural Education	Superintendent of Public Instruction	84.358	346,554	
English Language Acquisition Grant	Education, State Board of	84.365	1,233,827	
English Language Acquisition Grant	Superintendent of Public Instruction	84.365	3,131	
Title II-B Math/Science	Superintendent of Public Instruction	84.366	293,346	
Improving Teacher Quality State Grants	Education, State Board of	84.367	46,578	
Improving Teacher Quality State Grants	Superintendent of Public Instruction	84.367	13,768,939	
Assessments and Related Activities	Education, State Board of	84.369	5,127,227	
Assessments and Related Activities	Superintendent of Public Instruction	84.369	3,462,434	
Basic Participation	Superintendent of Public Instruction	84.999	8,858	
PBDMI Program	Superintendent of Public Instruction	84.999	98,218	
NAEP Program	Superintendent of Public Instruction	84.999	96,716	
TOTAL NON-CLUSTERED PROGRAMS			\$116,711,270	
TOTAL DEPARTMENT OF EDUCATION			\$162,689,720	
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION				
National Historic Publications	Historical Society, Idaho State	89.003	\$9,417	
TOTAL NATIONAL ARCHIVES AND RECORDS ADMINISTRATION			\$9,417	
HEALTH AND HUMAN SERVICES				
AGING CLUSTER:				
Support Services and Senior Centers	Aging, Idaho Commission on	93.044	\$1,869,032	
Nutrition Services	Aging, Idaho Commission on	93.045	2,626,507	
Nutrition Services Incentive	Aging, Idaho Commission on	93.053	833,689	
TOTAL AGING CLUSTER			\$5,329,228	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
CHILD CARE CLUSTER:				
Child Care and Development Block Grant	Health and Welfare, Department of	93.575	\$10,075,287	
Child Care Mandatory and Matching Funds	Health and Welfare, Department of	93.596	10,959,402	
TOTAL CHILD CARE CLUSTER			\$21,034,689	
MEDICAID CLUSTER:				
State Survey and Certification of Health Care Providers	Health and Welfare, Department of	93.777	\$2,484,325	
Medical Assistance Program	Health and Welfare, Department of	93.778	741,494,497	
TOTAL MEDICAID CLUSTER			\$743,978,822	
NON-CLUSTERED PROGRAMS				
Bioterrorism Hospital	Health and Welfare, Department of	93.003	\$2,596,023	
Prevention of Elder Abuse and Neglect	Aging, Idaho Commission on	93.041	25,316	
Ombudsman Services for the Elderly	Aging, Idaho Commission on	93.042	70,824	
Disease Prevention and Health Promotion	Aging, Idaho Commission on	93.043	119,463	
Special Programs for Aging Discretionary Projects	Aging, Idaho Commission on	93.048	213,778	
Alzheimer's Disease Demo	Aging, Idaho Commission on	93.051	158,241	
Family Caregiver	Aging, Idaho Commission on	93.052	876,584	
Children's Mental Health	Health and Welfare, Department of	93.104	927,013	
Maternal and Child Health Program	Health and Welfare, Department of	93.110	339,852	
Tuberculosis Control Program	Health and Welfare, Department of	93.116	196,924	
Emergency Medical Services for Children	Health and Welfare, Department of	93.127	106,940	
Primary Care Services	Health and Welfare, Department of	93.130	123,052	
Injury Prevention Education	Health and Welfare, Department of	93.136	167,695	
AIDS Education and Training Centers (Note 3)	Health and Welfare, Department of	93.145	76,688	PT
Protection Assistance in Transition From Homelessness	Health and Welfare, Department of	93.150	263,036	
Family Planning Services	Health and Welfare, Department of	93.217	1,559,297	
Knowledge and Development Programs	Health and Welfare, Department of	93.230	9,934	
Traumatic Brain Injury	Health and Welfare, Department of	93.234	211,005	
Abstinence Education	Health and Welfare, Department of	93.235	185,643	
State Capacity Building	Health and Welfare, Department of	93.240	217,171	
State Rural Hospital Flexibility Program	Health and Welfare, Department of	93.241	568,533	
Adult Drug Treatment Enhancement	Health and Welfare, Department of	93.243	45,798	
Adult Drug Treatment Enhancement	Judicial Department	93.243	572,315	
Universal Newborn Hearing Screening	Health and Welfare, Department of	93.251	15,758	
Rural Access to Emergency Devices	Health and Welfare, Department of	93.259	364,001	
Childhood Immunization Grants	Health and Welfare, Department of	93.268	2,386,742	
Childhood Immunization Grants (Note 2)	Health and Welfare, Department of	93.268	1,863,899	NC
Access to Recovery	Health and Welfare, Department of	93.275	1,106,733	
Centers For Disease Control Investigations	Health and Welfare, Department of	93.283	11,635,233	
Small Rural Hospital Improvement Grant	Health and Welfare, Department of	93.301	196,869	
Family Preservation and Support Services	Health and Welfare, Department of	93.556	1,243,845	
Temporary Assistance For Needy Families	Health and Welfare, Department of	93.558	42,464,200	
Child Support Enforcement	Health and Welfare, Department of	93.563	14,706,722	
Refugee Assistance- State Programs	Health and Welfare, Department of	93.566	283,688	
Low-Income Home Energy Assistance	Health and Welfare, Department of	93.568	10,985,058	
Community Services Block Grant	Health and Welfare, Department of	93.569	3,191,441	
Community Services Block Grant Discretionary Food and Nutrition	Health and Welfare, Department of	93.571	8,564	
Refugee Children	Superintendent of Public Instruction	93.576	201,344	
State Court Improvement	Judicial Department	93.586	105,466	
Ada County Family Court (Note 3)	Judicial Department	93.586	127,978	PT
Access and Visitation Program	Health and Welfare, Department of	93.597	99,833	
Independent Living	Health and Welfare, Department of	93.599	69,431	
Head Start	Health and Welfare, Department of	93.600	209,162	

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The accompanying notes are an integral part of the financial statements.

**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Adoption Incentive	Health and Welfare, Department of	93.603	101,567	
Help Americans Vote	Secretary of State	93.617	78,795	
Developmental Disabilities Basic Support and Advocacy	Health and Welfare, Department of	93.630	445,301	
Children's Justice Grants	Health and Welfare, Department of	93.643	133,790	
Child Welfare Services	Health and Welfare, Department of	93.645	1,754,709	
Foster Care- Title IV-E	Health and Welfare, Department of	93.658	8,256,064	
Adoption Assistance	Health and Welfare, Department of	93.659	2,993,283	
Social Services Block Grant	Health and Welfare, Department of	93.667	7,220,570	
Child Abuse and Neglect Grants	Health and Welfare, Department of	93.669	491,553	
Family Violence and Prevention Services	Health and Welfare, Department of	93.671	848,271	
Independent Living	Health and Welfare, Department of	93.674	484,000	
Children's Health Insurance Program	Health and Welfare, Department of	93.767	17,167,796	
Medicaid Infrastructure	Health and Welfare, Department of	93.768	206,165	
CMS Research, Demonstrations, and Evaluations	Health and Welfare, Department of	93.779	1,059,882	
CMS Research, Demonstrations, and Evaluations	Insurance, Department of	93.779	243,100	
National Bioterrorism Hospital Preparedness Program	Health and Welfare, Department of	93.889	402,742	
Rural Health Grants	Health and Welfare, Department of	93.913	113,946	
HIV Care Formula Grants	Health and Welfare, Department of	93.917	1,022,003	
AIDS Health Education	Superintendent of Public Instruction	93.938	225,334	
HIV Prevention Activities	Health and Welfare, Department of	93.940	912,905	
HIV/AIDS Surveillance	Health and Welfare, Department of	93.944	53,233	
Improving EMS Trauma Care	Health and Welfare, Department of	93.952	21,368	
Community Mental Health Block Grants	Health and Welfare, Department of	93.958	2,296,724	
Substance Abuse Block Grants	Health and Welfare, Department of	93.959	6,461,118	
Prevention of Sexually Transmitted Diseases	Health and Welfare, Department of	93.977	375,801	
Diabetes Control Programs	Health and Welfare, Department of	93.988	360,745	
Preventive Health Services Block Grant	Health and Welfare, Department of	93.991	438,255	
Maternal and Child Health	Health and Welfare, Department of	93.994	3,475,898	
Mad Cow Inspections	Agriculture, Department of	93.999	7,127	
Health Resources and Services Admin	Commerce and Labor, Department of	93.999	67,040	
Miscellaneous Health and Human Services Grants	Health and Welfare, Department of	93.999	215,605	
Drug Alcohol Information	Health and Welfare, Department of	93.999	18,860	
Vital Statistics Grants	Health and Welfare, Department of	93.999	139,473	
TOTAL NON-CLUSTERED PROGRAMS			\$158,990,115	
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$929,332,854	
COOPERATION FOR NATIONAL AND COMMUNITY SERVICE				
State Commission	Correction, Department of	94.003	\$160,708	
Learn and Serve American School	Superintendent of Public Instruction	94.004	89,128	
AmeriCorps- Programs	Correction, Department of	94.006	1,307,450	
Training and Technical Assistance	Correction, Department of	94.009	7,612	
Volunteers to Serve America	Superintendent of Public Instruction	94.013	44,810	
TOTAL COOPERATION FOR NATIONAL AND COMMUNITY SERVICE			\$1,609,708	
SOCIAL SECURITY ADMINISTRATION				
Social Security-Disability Insurance	Commerce and Labor, Department of	96.001	\$7,539,430	
Social Security -Reimbursement	Vocational Rehabilitation, Division of	96.008	470,530	
Social Security Death Report	Health and Welfare, Department of	96.999	35,271	
TOTAL SOCIAL SECURITY ADMINISTRATION			\$8,045,231	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
DEPARTMENT OF HOMELAND SECURITY				
Domestic Preparedness Equip. Support Program	Military, Division of	97.004	\$14,663,116	
Boating Safety Financial Assistance	Parks and Recreation, Department of	97.012	713,534	
Pre-Disaster Mitigation Competitive Grant	Military, Division of	97.017	103,162	
National Fire Training Grant	Professional-Technical Education, Division of	97.019	22,188	
State Assistance Flood Plain Management	Water Resources, Department of	97.023	94,525	
Flood Mitigation Assistance	Military, Division of	97.029	63,594	
Dam Safety Program	Water Resources, Department of	97.041	49,751	
Emergency Management Performance	Military, Division of	97.042	1,140,313	
Pre-Disaster Mitigation	Military, Division of	97.047	136,137	
Community Emergency Response Teams	Military, Division of	97.054	171,969	
Homeland Security	Military, Division of	97.067	1,288,809	
MAP Modernization Management Support	Water Resources, Department of	97.070	63,033	
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>\$18,510,131</u>	
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$1,875,181,555</u>	

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**SUPPLEMENTARY SCHEDULE
OF
EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY**

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
ADMINISTRATION, DEPARTMENT OF				
Research and Data Acquisition	Department of Interior	15.808	\$15,010	
Donation of Federal Surplus Personal Property (Note 2)	General Services Administration	39.003	4,500,360	NC
TOTAL ADMINISTRATION, DEPARTMENT OF			<u>\$4,515,370</u>	
AGING, IDAHO COMMISSION ON				
Senior Community Service Employment Program	Department of Labor	17.235	\$425,648	
Prevention of Elder Abuse and Neglect	Health and Human Services	93.041	25,316	
Ombudsman Services for the Elderly	Health and Human Services	93.042	70,824	
Disease Prevention and Health Promotion	Health and Human Services	93.043	119,463	
Support Services and Senior Centers	Health and Human Services	93.044	1,869,032	
Nutrition Services	Health and Human Services	93.045	2,626,507	
Special Programs for Aging Discretionary Projects	Health and Human Services	93.048	213,778	
Alzheimer's Disease Demo	Health and Human Services	93.051	158,241	
Family Caregiver	Health and Human Services	93.052	876,584	
Nutrition Services Incentive	Health and Human Services	93.053	833,689	
TOTAL AGING, IDAHO COMMISSION ON			<u>\$7,219,082</u>	
AGRICULTURE, DEPARTMENT OF				
Plant and Animal Disease Control	Department of Agriculture	10.025	\$1,627,132	
Inspection Grading and Standardization	Department of Agriculture	10.162	68,421	
Market Protection and Promotion	Department of Agriculture	10.163	40,944	
Cooperative Forestry Assistance	Department of Agriculture	10.664	890,661	
Soil Survey Agreement	Department of Agriculture	10.903	27,000	
Watershed Survey and Planning	Department of Agriculture	10.906	430,420	
Noxious Weed Fire Plan	Department of Agriculture	10.999	23,277	
Miscellaneous Resource Conservation Grants	Department of Agriculture	10.999	42,620	
Slickspot Peppergrass Control	Department of Defense	12.100	976	
Cooperative Endangered Species Conservation Fund	Department of Interior	15.615	19,006	
Landowner Incentive Program	Department of Interior	15.633	46,690	
Noxious Weed Strategic Plan	Department of Interior	15.999	624,237	
Fish and Wildlife Service Fish Restoration	Department of Interior	15.999	16,917	
Pesticides Enforcement Cooperative Agreement	Environmental Protection Agency	66.700	466,734	
Mad Cow Inspections	Health and Human Services	93.999	7,127	
TOTAL AGRICULTURE, DEPARTMENT OF			<u>\$4,332,162</u>	
ARTS, COMMISSION ON THE				
Promotion of the Arts Grants to Organizations and Individuals	Foundation on the Arts	45.024	\$20,000	
Promotion of the Arts-Partnership Agreements	Foundation on the Arts	45.025	480,800	
Promotion of the Arts-Leadership Initiatives	Foundation on the Arts	45.026	25,000	
Challenge America	Foundation on the Arts	45.027	124,000	
TOTAL ARTS, COMMISSION ON THE			<u>\$649,800</u>	
BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE				
Rehabilitation Services -Basic Support	Department of Education	84.126	\$1,815,323	
Independent Living State Grants	Department of Education	84.169	133,291	
Independent Living for Older Blind	Department of Education	84.177	283,321	
Supported Employment for Handicapped	Department of Education	84.187	4,656	
Vocational Rehabilitation In Service Training	Department of Education	84.265	32,046	
TOTAL BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE			<u>\$2,268,637</u>	
BUILDING SAFETY, DIVISION OF				
Manufactured Housing - Construction Standards	Housing/Urban Development	14.171	\$45,227	
TOTAL BUILDING SAFETY, DIVISION OF			<u>\$45,227</u>	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE ^a
COMMERCE AND LABOR, DEPARTMENT OF				
Rural and Community Fire Planning	Department of Agriculture	10.670	\$201,717	
Rural Forestry Development	Department of Agriculture	10.672	243,949	
Idaho Rural Partnership	Department of Agriculture	10.769	104,973	
Economic Adjustment Assistance	Department of Commerce	11.307	42,764	
Procurement Technical Assistance for Business Firms	Department of Defense	12.002	199,012	
Community Development Block Grant	Housing/Urban Development	14.228	9,740,103	
Labor Force Statistics	Department of Labor	17.002	725,729	
Labor Certification for Alien Workers	Department of Labor	17.203	270,600	
Employment Service	Department of Labor	17.207	7,440,335	
Unemployment Insurance	Department of Labor	17.225	157,090,589	
Senior Community Service Employment Program	Department of Labor	17.235	103,579	
Trade Adjustment Assistance: Workers	Department of Labor	17.245	2,909,881	
Workforce Investment Act - Adult	Department of Labor	17.258	3,481,816	
Workforce Investment Act - Youth	Department of Labor	17.259	4,419,140	
Workforce Investment Act - Dislocated Workers	Department of Labor	17.260	6,989,918	
Work Incentives Grant	Department of Labor	17.266	88,910	
Disabled Veterans Outreach Program	Department of Labor	17.801	300,077	
Local Veterans Employment Program	Department of Labor	17.804	698,483	
Transition Assist Program for Vets	Department of Labor	17.807	10,685	
Health Resources and Services Admin	Health and Human Services	93.999	67,040	
Social Security-Disability Insurance	Social Security Administration	96.001	7,539,430	
TOTAL COMMERCE AND LABOR, DEPARTMENT OF			\$202,668,730	
CORRECTION, DEPARTMENT OF				
Edward Byrne Formula Grants	Department of Justice	16.579	\$406,644	
Drug Intervention	Department of Justice	16.586	102,482	
State Criminal Alien Assistance	Department of Justice	16.606	320,039	
State Commission	Corp for Community Service	94.003	160,708	
AmeriCorps- Programs	Corp for Community Service	94.006	1,307,450	
Training and Technical Assistance	Corp for Community Service	94.009	7,612	
TOTAL CORRECTION, DEPARTMENT OF			\$2,304,935	
EDUCATION, STATE BOARD OF				
Educational Assistance Partnership	Department of Education	84.069	\$158,345	
Robert C. Byrd Honors Scholarship	Department of Education	84.185	210,499	
Advance Placement	Department of Education	84.330	7,488	
Teacher Quality Enhancement Grant	Department of Education	84.336	5,364	
Transition to Teaching	Department of Education	84.350	11,162	
English Language Acquisition Grant	Department of Education	84.365	1,233,827	
Improving Teacher Quality State Grants	Department of Education	84.367	46,578	
Assessments and Related Activities	Department of Education	84.369	5,127,227	
TOTAL EDUCATION, STATE BOARD OF			\$6,800,490	
ENVIRONMENTAL QUALITY, DEPARTMENT OF				
Reimbursement of Technical Services	Department of Defense	12.113	\$62,895	
DOI BLM Wood River	Department of Interior	15.999	28,316	
Coeur d'Alene Basin Projects	Department of Interior	15.999	156,423	
Air Pollution Control Program	Environmental Protection Agency	66.001	1,898,222	
Air Pollution Control Program (Note 2)	Environmental Protection Agency	66.001	220,777	NC
Hazardous and Toxic Air Pollutants (Note 3)	Environmental Protection Agency	66.034	18,992	PT
Water Pollution Control	Environmental Protection Agency	66.419	1,600,998	
Special Projects Safe Drinking Water	Environmental Protection Agency	66.424	5,842	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Public Water System Supervision Program	Environmental Protection Agency	66.432	1,181,905	
Surveys, Studies, Investigations, and Special Grants	Environmental Protection Agency	66.436	16,155	
Wastewater Construction Mgmt	Environmental Protection Agency	66.438	39,466	
Water Quality Management Planning	Environmental Protection Agency	66.454	90,957	
Capitalization Grant for Clean Water State Revolving Fund	Environmental Protection Agency	66.458	6,592,777	
Non-Point Source Implementation	Environmental Protection Agency	66.460	2,824,670	
Pollutant Discharge Elimination	Environmental Protection Agency	66.463	224,896	
Capitalization Grant for Drinking Water State Revolving Fund	Environmental Protection Agency	66.468	6,882,815	
Operator Certification Water Systems	Environmental Protection Agency	66.471	242,957	
Water Protection for States	Environmental Protection Agency	66.474	52,366	
Western Ecology Pilot E-Map	Environmental Protection Agency	66.500	147,871	
Surveys, Studies, Investigations, and Special Grants	Environmental Protection Agency	66.606	1,669,270	
Kootenai Tribe Agreement (Note 3)	Environmental Protection Agency	66.606	11,292	PT
Environmental Information Exchange	Environmental Protection Agency	66.608	462,185	
Pollution Prevention Grants	Environmental Protection Agency	66.708	174,105	
Source Reduction Assistance	Environmental Protection Agency	66.717	7,956	
Source Reduction Assistance (Note 3)	Environmental Protection Agency	66.717	9,076	PT
Hazardous Waste Management	Environmental Protection Agency	66.801	423,685	
Superfund Specific Cooperative Agreement	Environmental Protection Agency	66.802	8,913,376	
State and Tribal Underground Storage Tank Program	Environmental Protection Agency	66.804	144,902	
Leaking Underground Storage Tank Trust	Environmental Protection Agency	66.805	588,081	
Solid Waste Management Assistance	Environmental Protection Agency	66.808	475	
Superfund State and Indian Tribe Core Program Coop. Agreements	Environmental Protection Agency	66.809	301,626	
State and Tribal Response Program Grants	Environmental Protection Agency	66.817	683,860	
Remedial Action Nuclear Waste Technology	Department of Energy	81.092	425,987	
Waste Isolation Pilot Program - Transport of Transuranic Waste (Note 3)	Department of Energy	81.106	219,717	PT
Environmental Permitting INEEL Oversight	Department of Energy	81.502	2,946,410	
TOTAL ENVIRONMENTAL QUALITY, DEPARTMENT OF			\$39,271,303	
FISH AND GAME, DEPARTMENT OF				
Miscellaneous Forest Service Grants	Department of Agriculture	10.999	\$801,245	
Interjurisdictional Fisheries Act of 1986	Department of Commerce	11.407	121	
Columbia River Fisheries Development Program	Department of Commerce	11.436	1,247,899	
Pacific Coast Salmon Recovery	Department of Commerce	11.438	181,204	
Regional Fishery Management Council	Department of Commerce	11.441	17,862	
Habitat Conservation	Department of Commerce	11.463	11,924	
Miscellaneous NOAA Grants	Department of Commerce	11.999	782,724	
Miscellaneous Army Corps of Engineers Grants	Department of Defense	12.999	282,928	
Sport Fish Restoration	Department of Interior	15.605	5,038,209	
Fish and Wildlife Management	Department of Interior	15.608	103,059	
Wildlife Restoration	Department of Interior	15.611	4,245,283	
Cooperative Endangered Species Conservation Fund	Department of Interior	15.615	246,452	
Wildlife Conservation and Restoration	Department of Interior	15.625	29,766	
Landowner Incentive Program	Department of Interior	15.633	100,004	
State Wildlife Grants	Department of Interior	15.634	545,950	
Miscellaneous Fish and Wildlife Service Grants	Department of Interior	15.999	5,056,350	
Miscellaneous Bureau of Reclamation Grants	Department of Interior	15.999	769,089	
Miscellaneous Bureau of Land Management Grants	Department of Interior	15.999	466,909	
Wetlands Protection	Environmental Protection Agency	66.461	179,634	
Miscellaneous Bonneville Power Grants	Department of Energy	81.999	6,689,151	
TOTAL FISH AND GAME, DEPARTMENT OF			\$26,795,763	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
HEALTH AND WELFARE, DEPARTMENT OF				
Food Stamps (Note 2)	Department of Agriculture	10.551	\$100,888,022	NC
Supplemental Food for Women, Infants, and Children	Department of Agriculture	10.557	20,246,593	
State Admin. Match/Food Stamps Program	Department of Agriculture	10.561	8,420,906	
Emergency Food Assistance Program (Administration)	Department of Agriculture	10.568	231,351	
Emergency Food Assistance Program (Commodities) (Note 2)	Department of Agriculture	10.569	1,037,936	NC
Crime Victim Assistance	Department of Justice	16.575	2,326,470	
Indoor Radon Program	Environmental Protection Agency	66.032	88,858	
Clean Air Program	Environmental Protection Agency	66.034	34,021	
Protection of Children and Older Adults from Env. Health Risks	Environmental Protection Agency	66.609	13,363	
Weatherization Assistance for Low-Income Persons	Department of Energy	81.042	1,808,146	
Weatherization Conference	Department of Energy	81.999	522,921	
Special Education- Grants for Infants and Families With Disabilities	Department of Education	84.181	2,194,384	
Bioterrorism Hospital	Health and Human Services	93.003	2,596,023	
Children's Mental Health	Health and Human Services	93.104	927,013	
Maternal and Child Health Program	Health and Human Services	93.110	339,852	
Tuberculosis Control Program	Health and Human Services	93.116	196,924	
Emergency Medical Services for Children	Health and Human Services	93.127	106,940	
Primary Care Services	Health and Human Services	93.130	123,052	
Injury Prevention Education	Health and Human Services	93.136	167,695	
AIDS Education and Training Centers (Note 3)	Health and Human Services	93.145	76,688	PT
Protection Assistance In Transition From Homelessness	Health and Human Services	93.150	263,036	
Family Planning Services	Health and Human Services	93.217	1,559,297	
Knowledge and Development Programs	Health and Human Services	93.230	9,934	
Traumatic Brain Injury	Health and Human Services	93.234	211,005	
Abstinence Education	Health and Human Services	93.235	185,643	
State Capacity Building	Health and Human Services	93.240	217,171	
State Rural Hospital Flexibility Program	Health and Human Services	93.241	568,533	
Adult Drug Treatment Enhancement	Health and Human Services	93.243	45,798	
Universal Newborn Hearing Screening	Health and Human Services	93.251	15,758	
Rural Access to Emergency Devices	Health and Human Services	93.259	364,001	
Childhood Immunization Grants	Health and Human Services	93.268	2,386,742	
Childhood Immunization Grants (Note 2)	Health and Human Services	93.268	1,863,899	NC
Access to Recovery	Health and Human Services	93.275	1,106,733	
Centers For Disease Control Investigations	Health and Human Services	93.283	11,635,233	
Small Rural Hospital Improvement Grant	Health and Human Services	93.301	196,869	
Family Preservation and Support Services	Health and Human Services	93.556	1,243,845	
Temporary Assistance For Needy Families	Health and Human Services	93.558	42,464,200	
Child Support Enforcement	Health and Human Services	93.563	14,706,722	
Refugee Assistance- State Programs	Health and Human Services	93.566	283,688	
Low-Income Home Energy Assistance	Health and Human Services	93.568	10,985,058	
Community Services Block Grant	Health and Human Services	93.569	3,191,441	
Community Services Block Grant Discretionary Food and Nutrition	Health and Human Services	93.571	8,564	
Child Care and Development Block Grant	Health and Human Services	93.575	10,075,287	
Child Care Mandatory and Matching Funds	Health and Human Services	93.596	10,959,402	
Access and Visitation Program	Health and Human Services	93.597	99,833	
Independent Living	Health and Human Services	93.599	69,431	
Head Start	Health and Human Services	93.600	209,162	
Adoption Incentive	Health and Human Services	93.603	101,567	
Developmental Disabilities Basic Support and Advocacy	Health and Human Services	93.630	445,301	
Children's Justice Grants	Health and Human Services	93.643	133,790	
Child Welfare Services	Health and Human Services	93.645	1,754,709	

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The accompanying notes are an integral part of the financial statements.

STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE ^a
Foster Care- Title IV-E	Health and Human Services	93.658	8,256,064	
Adoption Assistance	Health and Human Services	93.659	2,993,283	
Social Services Block Grant	Health and Human Services	93.667	7,220,570	
Child Abuse and Neglect Grants	Health and Human Services	93.669	491,553	
Family Violence and Prevention Services	Health and Human Services	93.671	848,271	
Independent Living	Health and Human Services	93.674	484,000	
Children's Health Insurance Program	Health and Human Services	93.767	17,167,796	
Medicaid Infrastructure	Health and Human Services	93.768	206,165	
State Survey and Certification of Health Care Providers	Health and Human Services	93.777	2,484,325	
Medical Assistance Program	Health and Human Services	93.778	741,494,497	
CMS Research, Demonstrations, and Evaluations	Health and Human Services	93.779	1,059,882	
National Bioterrorism Hospital Preparedness Program	Health and Human Services	93.889	402,742	
Rural Health Grants	Health and Human Services	93.913	113,946	
HIV Care Formula Grants	Health and Human Services	93.917	1,022,003	
HIV Prevention Activities	Health and Human Services	93.940	912,905	
HIV/AIDS Surveillance	Health and Human Services	93.944	53,233	
Improving EMS Trauma Care	Health and Human Services	93.952	21,368	
Community Mental Health Block Grants	Health and Human Services	93.958	2,296,724	
Substance Abuse Block Grants	Health and Human Services	93.959	6,461,118	
Prevention of Sexually Transmitted Diseases	Health and Human Services	93.977	375,801	
Diabetes Control Programs	Health and Human Services	93.988	360,745	
Preventive Health Services Block Grant	Health and Human Services	93.991	438,255	
Maternal and Child Health	Health and Human Services	93.994	3,475,898	
Miscellaneous Health and Human Services Grants	Health and Human Services	93.999	215,605	
Drug Alcohol Information	Health and Human Services	93.999	18,860	
Vital Statistics Grants	Health and Human Services	93.999	139,473	
Social Security Death Report	Social Security Administration	96.999	35,271	
TOTAL HEALTH AND WELFARE, DEPARTMENT OF			<u>\$1,058,759,163</u>	
HISTORICAL SOCIETY, IDAHO STATE				
Cooperative Inspection Agreements States	Department of Interior	15.222	\$23,886	
Historic Preservation Fund Grants-In-Aid	Department of Interior	15.904	559,302	
Lewis and Clark Preservation Projects (Note 3)	Department of Interior	15.910	136,947	PT
Cost Share Lewis and Clark	Department of Interior	15.999	39,690	
Historic Preservation and Archaeology Month	Department of Interior	15.999	331	
Cultural Roots	Foundation on the Arts	45.166	362	
National Historic Publications	Archives and Records Administration	89.003	9,417	
TOTAL HISTORICAL SOCIETY, IDAHO STATE			<u>\$769,935</u>	
HUMAN RIGHTS COMMISSION				
Employment Discrimination	Equal Employment Opportunity Comm.	30.002	<u>\$184,516</u>	
TOTAL HUMAN RIGHTS COMMISSION			<u>\$184,516</u>	
IDAHO STATE POLICE				
Marijuana Eradication Interior Grants	Department of Interior	15.999	\$8,916	
Criminal Justice Statistical Clearinghouse	Department of Justice	16.550	50,000	
National Criminal History	Department of Justice	16.554	63,159	
National Forensic Science Improvement	Department of Justice	16.560	66,134	
Crime Lab Improvement	Department of Justice	16.564	11,657	
Edward Byrne Formula Grants	Department of Justice	16.579	2,942,057	
Violence Against Women Formula Grants	Department of Justice	16.588	882,171	
Local Law Enforcement Block Grant	Department of Justice	16.592	128,002	
Residential Substance Abuse for State Prisoners	Department of Justice	16.593	375,366	
Project Safe Neighborhoods	Department of Justice	16.609	126,056	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Community Policing Grants	Department of Justice	16.710	74,440	
Marijuana Eradication Drug Enforcement Administration	Department of Justice	16.999	36,718	
Miscellaneous Department of Justice Grants	Department of Justice	16.999	17,639	
Organized Crime	Department of Justice	16.999	51,209	
Motor Carrier Safety Assistance Program	Department of Transportation	20.218	1,734,382	
Miscellaneous Treasury Grant	Department of Treasury	21.999	108,350	
TOTAL IDAHO STATE POLICE			\$6,676,256	
IDAHO TRANSPORTATION DEPARTMENT				
Airport Improvement Program	Department of Transportation	20.106	\$916,707	
Highway Planning and Construction	Department of Transportation	20.205	233,069,418	
Urban Mass Transportation Studies	Department of Transportation	20.505	697,698	
Public Transportation for Nonurbanized Areas	Department of Transportation	20.509	1,943,576	
Assistance for Elderly and Disabled	Department of Transportation	20.513	190,766	
Transit Planning and Research	Department of Transportation	20.514	699	
State Planning and Research	Department of Transportation	20.515	51,133	
State and Community Highway Safety	Department of Transportation	20.600	988,367	
Alcohol Traffic Safety and Drunk Driving Prevention	Department of Transportation	20.601	258,785	
Occupant Protection	Department of Transportation	20.602	31,917	
Traffic Records System Grants	Department of Transportation	20.603	12,728	
Incentive Grants for Seat Belts	Department of Transportation	20.604	445,310	
TOTAL IDAHO TRANSPORTATION DEPARTMENT			\$238,607,104	
INDUSTRIAL COMMISSION				
Crime Victims Compensation	Department of Justice	16.576	\$607,692	
Compensation and Working Conditions	Department of Labor	17.005	2,140	
TOTAL INDUSTRIAL COMMISSION			\$609,832	
INSURANCE, DEPARTMENT OF				
CMS Research, Demonstrations, and Evaluations	Health and Human Services	93.779	\$243,100	
TOTAL INSURANCE, DEPARTMENT OF			\$243,100	
JUDICIAL DEPARTMENT				
State Court Improvement - Edward Byrne Discretionary Grants (Note 3)	Health and Human Services	16.580	\$29,893	PT
Mental Health Courts	Department of Justice	16.999	49,242	
Drug Courts Programs	Department of Justice	16.999	17,567	
Miscellaneous Department of Justice Grants	Department of Justice	16.999	38,238	
Adult Drug Treatment Enhancement	Health and Human Services	93.243	572,315	
State Court Improvement	Health and Human Services	93.586	105,466	
Ada County Family Court (Note 3)	Health and Human Services	93.586	127,978	PT
TOTAL JUDICIAL DEPARTMENT			\$940,699	
JUVENILE CORRECTIONS, DEPARTMENT OF				
Serious and Violent Offender Reentry	Department of Justice	16.202	\$183,649	
Juvenile Accountability Incentive Block Grant	Department of Justice	16.523	1,611,843	
Juvenile Delinquency Prevention - State Grant	Department of Justice	16.540	725,371	
Title V Delinquency Prevention	Department of Justice	16.548	114,430	
JJ Challenge	Department of Justice	16.549	37,936	
Residential Substance Abuse for State Prisoners	Department of Justice	16.593	144,323	
Enforcing Underage Drinking Laws	Department of Justice	16.727	319,969	
Miscellaneous Federal Communications Comm. Grants	Federal Communications Commission	32.999	24,434	
TOTAL JUVENILE CORRECTIONS, DEPARTMENT OF			\$3,161,955	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE^a
LANDS, DEPARTMENT OF				
Plant and Animal Disease Control	Department of Agriculture	10.025	\$198,038	
Conservation Resources	Department of Agriculture	10.069	18,149	
Cooperative Forestry Assistance	Department of Agriculture	10.664	5,127,699	
Forest Land Enhancement Program	Department of Agriculture	10.667	112,232	
Rural Forestry Development	Department of Agriculture	10.672	168,906	
Forest Legacy Program	Department of Agriculture	10.676	3,457,000	
Wildland Urban Interface	Department of Interior	15.228	61,752	
TOTAL LANDS, DEPARTMENT OF			<u>\$9,143,776</u>	
LIBRARY, IDAHO STATE				
Community Development Block Grant-Special Projects (Note 3)	Housing/Urban Development	14.246	\$21,102	PT
State Library Program	Foundation on the Arts	45.310	1,082,770	
TOTAL LIBRARY, IDAHO STATE			<u>\$1,103,872</u>	
MILITARY, DIVISION OF				
National Guard Operations and Maintenance	Department of Defense	12.401	\$16,679,877	
Interagency Hazardous Materials Training Grants	Department of Transportation	20.703	43,533	
Domestic Preparedness Equipment Support Program	Department of Homeland Security	97.004	14,663,116	
Pre-Disaster Mitigation Competitive Grant	Department of Homeland Security	97.017	103,162	
Flood Mitigation Assistance	Department of Homeland Security	97.029	63,594	
Emergency Management Performance	Department of Homeland Security	97.042	1,140,313	
Pre-Disaster Mitigation	Department of Homeland Security	97.047	136,137	
Community Emergency Response Teams	Department of Homeland Security	97.054	171,969	
Homeland Security	Department of Homeland Security	97.067	1,288,809	
TOTAL MILITARY, DIVISION OF			<u>\$34,290,510</u>	
PARKS AND RECREATION, DEPARTMENT OF				
Harriman State Park Restoration	Department of Agriculture	10.999	\$9,213	
Sport Fishing and Boating Safety Act	Department of Interior	15.622	40,000	
Outdoor Recreation - Acquisition and Development	Department of Interior	15.916	553,332	
BLM Trail Dozer	Department of Interior	15.999	14,111	
Lake Walcott Projects-Bureau of Reclamation	Department of Interior	15.999	65,663	
City of Rocks National Park Service	Department of Interior	15.999	363,683	
Lake Cascade Park Accessibility	Department of Interior	15.999	42,183	
Cascade Reservoir MOA-Bureau of Reclamation	Department of Interior	15.999	176,445	
Miscellaneous Department of Interior Grants	Department of Interior	15.999	7,748	
National Recreation Trails	Department of Transportation	20.219	793,490	
Boating Safety Financial Assistance	Department of Homeland Security	97.012	713,534	
TOTAL PARKS AND RECREATION, DEPARTMENT OF			<u>\$2,779,402</u>	
PHARMACY, BOARD OF				
Drug Diversion Program	Department of Justice	16.999	\$53,140	
TOTAL PHARMACY, BOARD OF			<u>\$53,140</u>	
PROFESSIONAL-TECHNICAL EDUCATION, DIVISION OF				
Vocational Education - Basic Grant	Department of Education	84.048	\$6,711,925	
Projects with Industry	Department of Education	84.234	395,619	
Tech-Prep Education	Department of Education	84.243	350,948	
National Fire Training Grant	Department of Homeland Security	97.019	22,188	
TOTAL PROFESSIONAL-TECHNICAL EDUCATION, DIVISION OF			<u>\$7,480,680</u>	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
PUBLIC TELEVISION, IDAHO				
Public Television Station Digital Transition Grant Program	Department of Agriculture	10.861	\$205,373	
Public Telecommunications Facilities	Department of Commerce	11.550	105,360	
Ready-to-Learn Television	Department of Education	84.295	50,582	
TOTAL PUBLIC TELEVISION, IDAHO			<u>\$361,315</u>	
PUBLIC UTILITIES COMMISSION				
Pipeline Safety	Department of Transportation	20.700	\$81,831	
TOTAL PUBLIC UTILITIES COMMISSION			<u>\$81,831</u>	
REVENUE AND TAXATION, DEPARTMENT OF				
Miscellaneous Highway Administration Grants	Department of Transportation	20.999	\$88,861	
TOTAL REVENUE AND TAXATION, DEPARTMENT OF			<u>\$88,861</u>	
SECRETARY OF STATE				
Election Reform	General Services Administration	39.999	\$2,519,965	
Help Americans Vote	Health and Human Services	93.617	78,795	
TOTAL SECRETARY OF STATE			<u>\$2,598,760</u>	
SPECIES CONSERVATION, OFFICE OF				
Pacific Coast Salmon Recovery	Department of Commerce	11.438	\$119,692	
Wildlife Restoration	Department of Interior	15.611	324,406	
Cooperative Endangered Species Conservation Fund	Department of Interior	15.615	581,928	
TOTAL SPECIES CONSERVATION, OFFICE OF			<u>\$1,026,026</u>	
SUPERINTENDENT OF PUBLIC INSTRUCTION				
Food Donation (Note 2)	Department of Agriculture	10.550	\$4,065,029	NC
School Breakfast Program	Department of Agriculture	10.553	8,787,566	
National School Lunch Program	Department of Agriculture	10.555	31,038,487	
Special Milk Program for Children	Department of Agriculture	10.556	217,790	
Child and Adult Care Food Program	Department of Agriculture	10.558	4,703,474	
Summer Food Service Program for Children	Department of Agriculture	10.559	2,261,581	
Administrative Expense for Child Nutrition	Department of Agriculture	10.560	725,706	
Team Nutrition Training	Department of Agriculture	10.574	83,009	
Team Nutrition Training (Note 3)	Department of Agriculture	10.574	3,749	PT
Indian Education - Assistance to Schools	Department of Interior	15.130	47,607	
Miscellaneous Veterans Affairs Grants	Department of Veterans Affairs	64.999	117,624	
Adult Basic Education	Department of Education	84.002	2,435,433	
Educationally Deprived Children (Title 1)	Department of Education	84.010	40,122,472	
Migrant Education - Basic State Grant	Department of Education	84.011	4,401,300	
Neglected or Delinquent Children (Title 1)	Department of Education	84.013	258,691	
Special Education-Grants to States	Department of Education	84.027	43,769,108	
Preschool Handicapped (Title VI-B)	Department of Education	84.173	2,209,342	
Safe and Drug-Free Schools State Grants	Department of Education	84.184	167,622	
Robert C. Byrd Honors Scholarship	Department of Education	84.185	(750)	
Safe and Drug Free Schools	Department of Education	84.186	2,065,568	
Bilingual Education	Department of Education	84.194	(732)	
Education for Homeless Children	Department of Education	84.196	247,090	
Even-Start Local Education	Department of Education	84.213	711,471	
Character Education	Department of Education	84.215	527,892	
Charter Public Schools	Department of Education	84.282	1,656,464	
Twenty-First Century Learning Centers	Department of Education	84.287	2,744,798	
Innovative Education (Title VI)	Department of Education	84.298	1,508,278	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Civic Education-Cooperative Education Exchange Program (Note 3)	Department of Education	84.304	40,251	PT
Technology Literacy Challenge Fund	Department of Education	84.318	3,643,636	
Special Education-State Personnel Development	Department of Education	84.323	761,556	
Special Education-Children with Disabilities	Department of Education	84.326	48,645	
Comprehensive School Reform	Department of Education	84.332	532,820	
Community Technology Centers	Department of Education	84.341	53,208	
Reading First State Grants	Department of Education	84.357	4,129,511	
Rural Education	Department of Education	84.358	346,554	
English Language Acquisition Grant	Department of Education	84.365	3,131	
Title II-B Math/Science	Department of Education	84.366	293,346	
Improving Teacher Quality State Grants	Department of Education	84.367	13,768,939	
Assessments and Related Activities	Department of Education	84.369	3,462,434	
Basic Participation	Department of Education	84.999	8,858	
PBDMI Program	Department of Education	84.999	98,218	
NAEP Program	Department of Education	84.999	96,716	
Refugee Children	Health and Human Services	93.576	201,344	
AIDS Health Education	Health and Human Services	93.938	225,334	
Learn and Serve American School	Corp for Community Service	94.004	89,128	
Volunteers to Serve America	Corp for Community Service	94.013	44,810	
TOTAL SUPERINTENDENT OF PUBLIC INSTRUCTION			\$182,724,108	
VETERANS SERVICES, DIVISION OF				
Construction of State Home Facilities	Department of Veterans Affairs	64.005	\$259,487	
Veterans Nursing Home Care	Department of Veterans Affairs	64.015	5,568,262	
State Cemetery Grants	Department of Veterans Affairs	64.203	456,632	
TOTAL VETERANS SERVICES, DIVISION OF			\$6,284,381	
VOCATIONAL REHABILITATION, DIVISION OF				
Rehabilitation Services -Basic Support	Department of Education	84.126	\$13,255,556	
Rehabilitation Services -Special Projects	Department of Education	84.128	143,885	
Independent Living State Grants	Department of Education	84.169	108,824	
Supported Employment for Handicapped	Department of Education	84.187	246,008	
Vocational Rehabilitation In Service Training	Department of Education	84.265	50,992	
Social Security -Reimbursement	Social Security Administration	96.008	470,530	
TOTAL VOCATIONAL REHABILITATION, DIVISION OF			\$14,275,795	
WATER RESOURCES, DEPARTMENT OF				
Miscellaneous Bureau of Reclamation Grants	Department of Interior	15.999	\$3,810,593	
Aerospace Education Services Program	NASA	43.001	156,783	
Underground Water Source Protection	Environmental Protection Agency	66.433	66,990	
Wetlands Protection	Environmental Protection Agency	66.461	10,670	
State Energy Conservation Program	Department of Energy	81.041	963,192	
Regional Biomass Energy Programs	Department of Energy	81.079	55,319	
Compressed Natural Gas	Department of Energy	81.086	3,848	
Renewable Energy Projects	Department of Energy	81.117	106,815	
Wind Energy Project (Note 3)	Department of Energy	81.117	9,679	PT
State Energy Special Projects	Department of Energy	81.119	442,086	
Bonneville Power Pilot Program	Department of Energy	81.999	231,755	
State Assistance Flood Plain Management	Department of Homeland Security	97.023	94,525	
Dam Safety Program	Department of Homeland Security	97.041	49,751	
MAP Modernization Management Support	Department of Homeland Security	97.070	63,033	
TOTAL WATER RESOURCES, DEPARTMENT OF			\$6,065,039	
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$1,875,181,555	

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The accompanying notes are an integral part of the financial statements.

**NOTES TO SUPPLEMENTARY SCHEDULES
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE #1 PURPOSE OF THE SCHEDULE

The Supplementary Schedules of Expenditures of Federal Awards (schedules) are in addition to the State's basic financial statements, and are presented for purposes of additional analysis. The schedules are required by Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE #2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal program.

A. REPORTING ENTITY

The reporting entity includes all federal awards administered by those State departments and entities included in the State's *Comprehensive Annual Financial Report (CAFR)*, except for the colleges and universities and the Idaho Housing and Finance Association. The Schedules of Expenditures of Federal Awards for colleges and universities and the Idaho Housing and Finance Association are audited by independent certified public accountants and published under separate cover.

B. BASIS OF ACCOUNTING

The supplementary schedules were prepared using the cash basis method of accounting. Disbursements are recognized when paid rather than when obligations are incurred. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic statements.

C. BASIS OF PRESENTATION

Expenditures of Federal Awards – Pursuant to the *Single Audit Act of 1984* (Public Law 98-502), the *Single Audit Act Amendments of 1996* (Public Law 104-156), and *OMB Circular A-133*, a federal award is assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary assistance, including food commodities and food stamps, is considered federal assistance, and is therefore reported on the schedules. Contracts between the State and federal government for which the federal government procures tangible goods or services are not considered to be expenditures of federal awards.

Catalog of Federal Domestic Assistance – *OMB Circular A-133* requires the schedules to show total expenditures for each of the State's federal assistance programs, as identified in the *Catalog of Federal Domestic Assistance* (CFDA). The CFDA is a government-wide compendium of individual federal programs. Federal award programs that have not been assigned a CFDA number are identified with the first two digits that identify the federal grantor department followed by ".999."

Major and Nonmajor Programs – *OMB Circular A-133* establishes a risk-based approach to determine which federal programs are major programs. This risk-based approach includes consideration of current and prior audit experience, oversight by grantor agencies, and the inherent risk of the federal program.

Program Clusters – Closely related programs with different CFDA numbers that share common compliance requirements are considered "program clusters." The only program clusters presented on the schedule are those mandated by the *OMB Circular A-133 Compliance Supplement*. The schedule is structured to present the federal assistance information by cluster, with the title of the cluster appearing in the heading. Programs not included within a designated cluster are presented under the title "non-clustered programs."

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2005**

Valuation of Noncash Assistance – Noncash expenditures of federal awards were determined as follows:

- a. Food Donation (CFDA 10.550) and Emergency Food Assistance (CFDA 10.569) – reported at fair market value of the food commodities distributed.
- b. Food Stamps (CFDA 10.551) – reported at face value of the food stamps distributed.
- c. Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at fair market value of the donated property as determined by the grantor agency at the time of receipt, plus costs incurred by the agency to put the asset into service.
- d. Air Pollution Control Program (CFDA 66.001) – reported at fair market value of the goods and services included as in-kind match.
- e. Childhood Immunization Grants (CFDA 93.268) – reported at the federally assigned value of the serum distributed.

NOTE #3 PASS-THROUGH ASSISTANCE

Some State agencies receive federal awards from non-federal entities to carry out federal programs. These awards are identified by "PT" on the Schedule of Expenditures of Federal Awards. The following is additional information about these awards.

- A. CFDA 10.574 – The Superintendent of Public Instruction received U.S. Department of Agriculture Food and Nutrition funds from the University of Mississippi. The Superintendent reported expenditures of \$3,749. (Grantor number NF9 3/4 90)
- B. CFDA 14.246 – The State Library received U.S. Housing and Urban Development funds from the Log Cabin Literacy Center. The Library reported expenditures of \$21,102. (Grantor Number EDI-SP B-03-ID-0203)
- C. CFDA 15.910 – The Idaho State Historical Society received U.S. Department of Interior funds from the Clearwater Economic Development Association. The Society reported expenditures of \$136,947. (Grantor number HUD03-013)
- D. CFDA 16.580 – The Judicial Department received an Department of Justice funds from Ada County. The Department reported expenditures of \$29,893. (Grantor number 03-BYRN-11-IC-1)
- E. CFDA 66.034 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Nez Perce Tribe. The Department reported expenditures of \$18,992. (Grantor number MOA OAREMAD0308)
- F. CFDA 66.606 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Coeur d'Alene and Kootenai Tribes. The Department reported expenditures of \$11,292. (Grantor number n/a)
- G. CFDA 66.717 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Oregon Center for Environmental Health. The Department reported expenditures of \$9,076. (Grantor number n/a)
- H. CFDA 81.106 – The Department of Environmental Quality received U.S. Department of Energy funds from the Western Governor's Association. The Department reported expenditures of \$219,717. (Grantor number MOA 30-301-0204-004, and DEFC 0490AL65416)

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2005**

- I. CFDA 81.117 – The Department of Water Resources received U.S. Department of Energy funds from the Nevada Energy Office. The Department reported expenditures of \$9,679. (Grantor number SEP/WE/04/012)
- J. CFDA 84.304 – The Superintendent of Public Instruction received U.S. Department of Education funds from the Center for Civic Education. The Superintendent reported expenditures of \$40,251. (Grantor number CC9 4/5 20, CC9 4/5 30, and CC9535)
- K. CFDA 93.145 – The Department of Health and Welfare received U.S. Department of Health and Human Services funds from the University of Washington. The Department reported expenditures of \$76,688. (Grantor number 877529)
- L. CFDA 93.586 – The Judicial Department received U.S. Department of Health and Human Services funds from the American Humane Council. The Department reported expenditures of \$127,978. (Grantor number 90-CA1699-IDSC03)

NOTE #4 LOANS OUTSTANDING

State agencies administer various loan programs on behalf of federal grantor agencies. The following explains:

- A. The Department of Environmental Quality administers loans for the Capitalization Grant for the Clean Water State Revolving Fund (CFDA 66.458) and the Capitalization Grant for the Drinking Water State Revolving Fund (CFDA 66.468). These revolving funds make loans to qualified agencies for various water treatment projects. The loans are funded by the federal capitalization grant (80%) and State match (20%). The loans are disbursed as the borrower incurs costs and are repaid over 20 years. Interest rates vary between 0% and 4.5%. Management considers all loans to be fully collectible, so there is no allowance for uncollectible accounts.

The following describes the status of these loan programs at June 30, 2005:

CAPITALIZATION GRANT FOR CLEAN WATER – CFDA 66.458

	Loan Authorized	Principal Repayments	Remaining Commitment	Receivable Balance
Completed Projects	\$124,952,806	\$78,344,417	\$0	\$46,608,389
Projects in Progress	90,169,785	823,935	56,954,387	32,391,463
Totals	<u>\$215,122,591</u>	<u>\$79,168,352</u>	<u>\$56,954,387</u>	\$78,999,852
Less: Amount Due Within 1 Year				<u>2,523,918</u>
Loans Receivable Net of Current Maturities				<u>\$76,475,934</u>

CAPITALIZATION GRANT FOR DRINKING WATER – CFDA 66.468

	Loan Authorized	Principal Repayments	Remaining Commitment	Receivable Balance
Completed Projects	\$21,608,876	\$1,676,453	\$0	\$19,932,423
Projects in Progress	31,246,365	994,500	22,233,398	8,018,467
Totals	<u>\$52,855,241</u>	<u>\$2,670,953</u>	<u>\$22,233,398</u>	\$27,950,890
Less: Amount Due Within 1 Year				<u>815,236</u>
Loans Receivable Net of Current Maturities				<u>\$27,135,654</u>

Notes to Supplementary Schedules of Expenditures of Federal Awards for the Year Ended June 30, 2005

- B. The Idaho Department of Water Resources administers loan and grant programs (CFDA 81.999) for the U.S. Department of Energy. The original source of these funds was petroleum price violations. The funds are used to finance various energy conservation projects. The outstanding principal and interest at June 30, 2005 was \$562,439. The Department of Water Resources determined that uncollectible accounts would be \$5,309.

NOTE #5 SUBRECIPIENTS

Some of the federal expenditures presented in the schedule were provided to subrecipients to administer federal programs. Some agencies are also provided State funds in addition to federal funds. The following is a schedule of State agency payments (federal and State funds) to subrecipients.

<u>STATE AGENCY</u>	<u>CFDA</u>	<u>CFDA TITLE</u>	<u>AMOUNT</u>
Aging, Idaho Commission on	17.235	Senior Community Service Employment Program	\$269,641
Aging, Idaho Commission on	93.042	Ombudsman Services for the Elderly	61,495
Aging, Idaho Commission on	93.043	Disease Prevention and Health Promotion	97,145
Aging, Idaho Commission on	93.044	Support Services and Senior Centers	1,552,175
Aging, Idaho Commission on	93.045	Nutrition Services	2,024,905
Aging, Idaho Commission on	93.048	Special Programs for Aging Discretionary Projects	29,995
Aging, Idaho Commission on	93.051	Alzheimer's Disease Demo	115,810
Aging, Idaho Commission on	93.052	Family Care Giver	639,566
Aging, Idaho Commission on	93.053	Nutrition Services Incentive	760,805
Arts, Commission on the	45.025	Promotion of the Arts-Partnership Agreements	215,580
Blind and Visually Impaired, Commission for the	84.169	Independent Living State Grants-Part B	40,700
Commerce and Labor, Department of	10.670	Rural and Community Fire Planning	201,717
Commerce and Labor, Department of	10.672	Rural Forestry Development	243,949
Commerce and Labor, Department of	14.228	Community Development Block Grant	9,363,605
Commerce and Labor, Department of	17.207	Employment Service	20,548
Commerce and Labor, Department of	17.258	Workforce Investment Act-Adult	1,124,943
Commerce and Labor, Department of	17.259	Workforce Investment Act-Youth	1,896,764
Commerce and Labor, Department of	17.260	Workforce Investment Act-Dislocated Worker	435,842
Commerce and Labor, Department of	17.266	Work Incentives Grant	5,503
Commerce and Labor, Department of	93.999	Heath Resources and Services Administration	60,741
Correction, Department of	94.003	State Commission	81,540
Correction, Department of	94.006	AmeriCorps-Programs	220,588
Education, State Board of	84.365	English Language Acquisition Grants	1,110,990
Environmental Quality, Department of	66.001	Air Pollution Control Program	1,954
Environmental Quality, Department of	66.432	Public Water System Supervision Program	442,876
Environmental Quality, Department of	66.460	Nonpoint Source Implementation	1,742,544
Environmental Quality, Department of	66.463	Pollutant Discharge Elimination	24,879
Environmental Quality, Department of	66.468	Capitalization Grant for Drinking Water	11,059
Environmental Quality, Department of	66.802	Superfund Specific Cooperative Agreement	5,686
Health and Welfare, Department of	10.557	Supplemental Food Program for Women, Infants, and Children	4,936,819
Health and Welfare, Department of	10.568	Emergency Food Assistance Program (Administration)	231,131
Health and Welfare, Department of	16.575	Crime Victim Assistance	2,230,067
Health and Welfare, Department of	66.032	Indoor Radon Grants	18,313
Health and Welfare, Department of	66.034	Clean Air Program	2,226
Health and Welfare, Department of	81.042	Weatherization Assistance for Low-Income Persons	1,769,201
Health and Welfare, Department of	93.003	Bioterrorism Hospital	2,907,973
Health and Welfare, Department of	93.104	Children's Mental Health	118,484
Health and Welfare, Department of	93.110	Maternal and Child Health Program	12,171
Health and Welfare, Department of	93.116	Tuberculosis Control Program	82,444
Health and Welfare, Department of	93.136	Injury Prevention Education	3,058
Health and Welfare, Department of	93.217	Family Planning Services	853,772
Health and Welfare, Department of	93.235	Abstinence Education	274,502
Health and Welfare, Department of	93.241	State Rural Hospital Flexibility Program	376,614

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2005**

Health and Welfare, Department of	93.259	Rural Access to Emergency Devices	361,616
Health and Welfare, Department of	93.268	Childhood Immunization Grants	557,712
Health and Welfare, Department of	93.283	Centers for Disease Control Investigations	4,813,993
Health and Welfare, Department of	93.301	Small Rural Hospital Improvement Grant	181,551
Health and Welfare, Department of	93.556	Family Preservation and Support Services	39,027
Health and Welfare, Department of	93.558	Temporary Assistance for Needy Families	1,673,257
Health and Welfare, Department of	93.568	Low-Income Home Energy Assistance	2,797,949
Health and Welfare, Department of	93.569	Community Services Block Grant	3,154,886
Health and Welfare, Department of	93.571	Community Services Block Grant Discretionary - Food and Nutrition	8,564
Health and Welfare, Department of	93.575	Child Care and Development Block Grant	16,160
Health and Welfare, Department of	93.600	Head Start	1,000
Health and Welfare, Department of	93.630	Developmental Disabilities Basic Support and Advocacy	23,335
Health and Welfare, Department of	93.659	Adoption Assistance	139,607
Health and Welfare, Department of	93.667	Social Services Block Grant	614,293
Health and Welfare, Department of	93.671	Family Violence Prevention Services	836,858
Health and Welfare, Department of	93.778	Medical Assistance Program	151,676
Health and Welfare, Department of	93.913	Rural Health Grants	9,795
Health and Welfare, Department of	93.917	HIV Care Formula Grants	69,650
Health and Welfare, Department of	93.940	HIV Prevention Activities	223,933
Health and Welfare, Department of	93.944	HIV/AIDS Surveillance	16,935
Health and Welfare, Department of	93.958	Community Mental Health Block Grants	187,875
Health and Welfare, Department of	93.977	Prevention of Sexually Transmitted Diseases	157,268
Health and Welfare, Department of	93.988	Diabetes Control Programs	115,586
Health and Welfare, Department of	93.991	Preventive Health Services Block Grant	258,173
Health and Welfare, Department of	93.994	Maternal and Child Health	1,330,206
Historical Society, Idaho State	15.904	Historic Preservation Fund Grants-In-Aid	66,558
Historical Society, Idaho State	15.999	Cost Share Lewis and Clark	13,000
Idaho State Police	16.579	Edward Byrne Formula Grants	1,748,184
Idaho State Police	16.588	Violence Against Women Formula Grants	675,043
Idaho State Police	16.609	Project Save Neighborhoods	126,056
Idaho State Police	93.643	Children's Justice Grants	6,897
Idaho Transportation Department	20.106	Airport Improvement Program	915,133
Idaho Transportation Department	20.209	Public Lands Highways	21,776
Idaho Transportation Department	20.505	Urban Mass Transportation Studies	1,122,931
Idaho Transportation Department	20.509	Public Transportation for Nonurbanized Areas	1,779,483
Idaho Transportation Department	20.513	Assistance for Elderly and Disabled	143,234
Idaho Transportation Department	20.600	State and Community Highway Safety	405,598
Idaho Transportation Department	20.601	Alcohol Traffic Safety and Drunk Driving Prevention	123,139
Idaho Transportation Department	20.602	Occupant Protection	18,188
Idaho Transportation Department	20.604	Incentive Grant for Seat Belts	148,345
Idaho Transportation Department	20.605	Safety Incentive to Prevent Oper. of Motor Vehicles by Intoxicated Persons	356
Insurance, Department of	93.779	CMS Research, Demonstrations, and Evaluations	2,100
Juvenile Corrections, Department of	16.202	Serious and Violent Offender Reentry	94,071
Juvenile Corrections, Department of	16.523	Juvenile Accountability Incentive Block Grant	1,137,264
Juvenile Corrections, Department of	16.540	Juvenile Delinquency Prevention-State Grant	495,470
Juvenile Corrections, Department of	16.548	Title V Delinquency Prevention	107,692
Juvenile Corrections, Department of	16.549	JJ Challenge	17,220
Juvenile Corrections, Department of	16.727	Enforcing Underage Drinking Laws	63,924
Lands, Department of	10.664	Cooperative Forestry Assistance	2,233,442
Lands, Department of	10.667	Forest Land Enhancement Program	9,667
Lands, Department of	10.672	Rural Forestry Development	107,579
Library, Idaho State	45.310	State Library Program	208,729
Military Division	97.004	Domestic Prep. Equip. Supp. Program	8,806,422
Military Division	97.017	Pre-Disaster Mitigation Competitive Grant	103,162
Military Division	97.029	Flood Mitigation Assistance	63,594
Military Division	97.042	Emergency Management Performance	304,588

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2005**

Military Division	97.047	Pre-Disaster Mitigation	132,111
Military Division	97.054	Community Emergency Response Teams	104,345
Parks and Recreation, Department of	15.622	Sport Fishing and Boating Safety Act	40,000
Parks and Recreation, Department of	15.916	Outdoor Recreation - Acquisition and Development	360,753
Parks and Recreation, Department of	20.005	Boating Safety Financial Assistance	2,400
Parks and Recreation, Department of	20.219	National Recreational Trails	564,858
Parks and Recreation, Department of	97.012	Boating Safety Financial Assistance	333,324
Professional-Technical Education, Div. of	84.048	Vocational Education Basic Grant	4,242,539
Professional-Technical Education, Div. of	84.243	Tech-Prep Education	116,211
Professional-Technical Education, Div. of	97.019	National Fire Academy Educational National Program	2,540
Professional-Technical Education, Div. of	97.043	State Fire Training Systems Grants	2,099
Secretary of State	39.999	Election Reform Payments	42,309
Secretary of State	93.617	Help Americans Vote	18,031
Superintendent of Public Instruction	10.550	Food Donation (Note 2)	4,229,749
Superintendent of Public Instruction	10.553	School Breakfast Program	8,663,334
Superintendent of Public Instruction	10.555	National School Lunch Program	30,805,377
Superintendent of Public Instruction	10.556	Special Milk Program for Children	216,600
Superintendent of Public Instruction	10.558	Child and Adult Care Food Program	4,398,868
Superintendent of Public Instruction	10.559	Summer Food Service Program for Children	2,113,267
Superintendent of Public Instruction	10.574	Team Nutrition Training	9,691
Superintendent of Public Instruction	15.130	Indian Education Assistance to Schools	44,210
Superintendent of Public Instruction	16.727	Enforcing Underage Drinking Laws	57,327
Superintendent of Public Instruction	17.258	Workforce Investment Act-Adult	1,378
Superintendent of Public Instruction	84.002	Adult Basic Education	530,079
Superintendent of Public Instruction	84.010	Educationally Deprived Children (Title I)	39,692,570
Superintendent of Public Instruction	84.011	Migrant Education-Basic State Grant	3,865,169
Superintendent of Public Instruction	84.027	Special Educations - Grants to States	40,596,343
Superintendent of Public Instruction	84.173	Preschool Handicapped (Title VI-B)	2,196,216
Superintendent of Public Instruction	84.184	Safe and Drug-Free Schools State Grants	144,263
Superintendent of Public Instruction	84.186	Safe and Drug-Free Schools	1,966,364
Superintendent of Public Instruction	84.196	Education for Homeless Children	219,261
Superintendent of Public Instruction	84.213	Even Start-Local Education	394,817
Superintendent of Public Instruction	84.215	Character Education	421,786
Superintendent of Public Instruction	84.282	Charter Public Schools	1,597,449
Superintendent of Public Instruction	84.287	Twenty-First Century Learning Centers	2,541,735
Superintendent of Public Instruction	84.298	Innovative Education (Title VI)	1,265,825
Superintendent of Public Instruction	84.318	Technology Literacy Challenge Fund	3,514,363
Superintendent of Public Instruction	84.332	Comprehensive School Reform	475,240
Superintendent of Public Instruction	84.357	Reading First State Grants	3,276,128
Superintendent of Public Instruction	84.358	Rural Education	335,606
Superintendent of Public Instruction	84.365	English Language Acquisition Grants	3,131
Superintendent of Public Instruction	84.367	Improving Teacher Quality State Grants	12,908,678
Superintendent of Public Instruction	93.576	Refugee Children	194,958
Superintendent of Public Instruction	93.938	AIDS Health Education	10,500
Superintendent of Public Instruction	94.004	Learn and Serve American School	61,128
Vocational Rehabilitation, Division of	84.126	Rehabilitation Services - Basic Support	145,196
Vocational Rehabilitation, Division of	84.169	Independent Living State Grants	112,840
Vocational Rehabilitation, Division of	96.008	Social Security Reimbursement	65,561
			<u>\$248,466,597</u>

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2005**

NOTE #6 REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal year 2005:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Children's Insurance Program (CHIP)	93.767	\$671,906
Medical Assistance Program	93.778	45,366,924
Supplemental Food for Women, Infants and Children (WIC)	10.557	6,770,624

Manufacturers paid rebates for infant formula (WIC) and prescription drugs (Medical Assistance and CHIP) that had been purchased by program participants. The rebates reduce previously incurred program costs.

**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

AUDITOR'S RESULTS



**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

AUDITOR'S RESULTS

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**STATE OF IDAHO
SINGLE AUDIT REPORT
SUMMARY OF AUDITOR'S RESULTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

BASIC FINANCIAL STATEMENTS

1. The independent auditor's report on the basic financial statements expressed an unqualified opinion.
2. The audit of the basic financial statements disclosed reportable internal control weaknesses that are not considered material to the financial statements.
3. The audit of the basic financial statements disclosed reportable instances of noncompliance that are not considered material to the financial statements.

FEDERAL AWARDS

1. The audit of federal major programs in the Schedule of Expenditures of Federal Awards disclosed internal control weaknesses. None of the internal control weaknesses are considered material.
2. The independent auditor's report on compliance with federal major programs expressed an unqualified opinion.
3. The *Single Audit Report* disclosed findings that are required to be reported in accordance with the criteria in Section 510a of *OMB Circular A-133*.
4. The federal programs identified as major programs are listed on the following page.
5. The dollar threshold used to distinguish between Type A and Type B programs was \$5,625,545.
6. For the fiscal year ended June 30, 2005, the State of Idaho did not meet *OMB Circular A-133's* requirements to qualify as a low-risk auditee.

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF FEDERAL MAJOR PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

PROGRAM OR CLUSTER TITLE	CFDA
FOOD STAMP CLUSTER:	
Food Stamps	10.551
State Admin Match/Food Stamp Program	10.561
CHILD CARE CLUSTER:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Grant	93.596
MEDICAID CLUSTER:	
State Survey and Certification of Health Care Providers	93.777
Medical Assistance Program	93.778
NON-CLUSTERED MAJOR PROGRAMS:	
Special Supplemental Nutrition Program for Women, Infants and Children	10.557
Highway Planning and Construction	20.205
Capitalization Grants for Clean Water State Revolving Fund	66.458
Capitalization Grants for Drinking Water State Revolving Fund	66.468
Superfund State Specific Cooperative Agreement	66.802
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126
Assessments and Related Activities	84.369
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
State Children's Insurance Program	93.767

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Department Federal Program	State Agency	CFDA Number	Questioned Costs	Finding Reference
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HEALTH AND HUMAN SERVICES, DEPARTMENT OF

Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-1
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-2
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-3
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-4
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-5
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-6
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-7
Child Support Enforcement	Health and Welfare, Department of	93.563	N/D	05F-8
Child Care and Development Block Grant	Health and Welfare, Department of	93.596	N/D	05F-9
Temporary Assistance to Needy Families	Health and Welfare, Department of	93.558	\$2,056	05F-10
Food Stamps Administration and Certification	Health and Welfare, Department of	10.561	N/D	05F-11

EDUCATION, DEPARTMENT OF

Rehabilitation Services – Basic Support Grant	Vocational Rehabilitation, Division of	84.126	432,400	05F-12
Rehabilitation Services – Basic Support Grant	Vocational Rehabilitation, Division of	84.126	N/D	05F-13

Total Questioned Costs			<u><u>\$434,456</u></u>	
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N/D = The amount of questioned costs for this finding is not easily determinable.

**STATE OF IDAHO
SINGLE AUDIT REPORT
FEDERAL FINDINGS AND QUESTIONED COSTS
FISCAL YEAR 2005**

HEALTH AND WELFARE, DEPARTMENT OF

FINDING 05F-1

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0405ID5028

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: E – Eligibility

Questioned Costs: Not determinable

Changes are needed in the criteria used to establish Medicaid eligibility under the Katie Beckett program.

The Home Care for Certain Disabled Children (Katie Beckett) Medicaid program is authorized under section 1915(c) of the Social Security Act, and allows states to extend Medicaid eligibility to children with disabilities, who would not otherwise qualify due to parental income or other resources. These children require an institutional level of care and would qualify for Medicaid if placed in an institution. However, by waiving the income and resource requirements, these children can be cared for in their own home at a lower cost to Medicaid. The primary program objective is to provide the required institutional levels of care at the lowest possible cost to the Medicaid program.

Federal regulations define "institutional level of care" as those services that are inherently complex; performed or supervised by technical or professional personnel; have been ordered by a physician; and are required 24 hours per day and ordinarily furnished, as a practical matter, on an inpatient basis (42 CFR 409, 435, 440, and 483).

Federal regulation (42 CFR 435.225) also defines the criteria that states must meet when determining eligibility under the Katie Beckett program. States can extend eligibility to children under the age of 19 "who would be eligible for Medicaid if they were in a medical institution, and who are receiving, while living at home, medical care that would be provided in a medical institution." In addition, it must be appropriate to provide this care outside such an institution, and the cost to Medicaid shall be no higher than the estimated Medicaid cost for appropriate institutional care.

In Idaho, the Katie Beckett Medicaid program is included in the Department's Medicaid State Plan, and the conditions for eligibility and other requirements are established in Administrative Rules (IDAPA 16.03.05 and 16.03.09). Although these rules generally mirror the federal regulation language, the Department's interpretation states that eligibility is "not dependent upon the receipt of services, but rather on whether the child needs the level of services" provided by an institution. In addition, the family may or may not choose to receive the same level of services they would receive in an institution, and they may elect to receive fewer services as long as the child can be safely and effectively served in the community. This interpretation varies from the language and intentions of federal regulations by establishing eligibility based on medical condition without regard to the delivery of required institutional levels of care while the child lives at home.

During fiscal year 2005, more than 1,600 children received Medicaid benefits under the Katie Beckett program at a cost of nearly \$24 million. However, nearly one-third of these children (534) received less than \$3,000 each in benefits during the year. Most of these children received limited services, such as school-based therapy and prescription drugs, or other services that were not institutional in nature. Significant periods of time existed where no services were provided at all. Allowing families to choose the type, frequency, and intensity of services is contrary to the

federal criteria that the child receives the required institutional levels of care as a condition of eligibility.

No requirement exists for the Department to ensure that the required institutional level of care is provided. Cost data in the Medicaid system clearly shows that at least one-third of the current clients are not receiving institutional levels of care, and the Department has no knowledge that these services are provided, or paid for by the family. The absence of any evidence that institutional care is provided raises the likelihood that, although medically eligible for institutional care, the delivery of such care is not required, and the objectives of the Katie Beckett program are not met.

A comprehensive medical evaluation and assessment of needs is developed for all clients determined eligible for the Katie Beckett program. However, no process exists to ensure that the level of care required and ordered by a medical professional is provided.

A more thorough review is needed to determine whether the lack of Medicaid costs for institutional care is an issue of eligibility, medical diagnosis, or the need for improved monitoring to ensure clients are receiving appropriate care paid for or provided by others.

Other states, such as Maine, have recently revised their rules, and require parents of a Katie Beckett child to provide detailed documentation of medical services provided to ensure that the child is safely and effectively served outside an institutional setting. This information could also confirm whether the determination of medical condition and eligibility was appropriate.

RECOMMENDATION 05F-1

We recommend that the Department undertake a thorough review of the criteria used to determine eligibility in the Katie Beckett program, and establish processes to monitor services provided to clients to ensure that an appropriate level of care is provided.

CORRECTIVE ACTION PLAN

We believe that all Katie Beckett clients are eligible according to federal rules and the State Plan. We disagree that the Department should monitor all services provided for Katie Beckett clients. We acknowledge however, that the number of clients could be decreased by making the criteria stricter.

We studied ten of the clients that the auditor indicated as "ineligible" and found that all were eligible based on their medical needs. The auditor's conclusion that "a third of the clients who are receiving benefits under the Katie Beckett program must not be eligible, or are not receiving necessary services, because the level of benefits paid is too low (less than \$3,000 per year)" is not correct. The amount of spending is not an accurate indicator of eligibility. Nor is spending a good indicator that clients are receiving services because many parents have other means to provide the assistance needed, i.e., other programs, personal funds, personal care, and personal insurance.

The State is not required, nor has the means, to track all treatment and services provided to Katie Beckett clients, we can only track those services provided through the Katie Beckett program. There is no practical way for the Department to track services that parents provide privately.

We do however, acknowledge that the State's criteria could be made stricter in an effort to reduce the number of eligible clients. The eligibility criteria is defined in a documented "interpretation" that clearly specifies each condition and degree of severity or care needed that qualifies as "institutional level of care." The State could make criteria stricter and exclude portions of the 1,600 clients currently in the program. The audit does not provide guidance as to which criteria, if any, should be adjusted.

FINDING 05F-2

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0405ID5048

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

Idaho is one of only two states without a certified Medicaid Fraud Control Unit.

The federal government offers a grant program (CFDA 93.775) to fund State Medicaid Fraud Control Units. The grant provides 90% federal funding for the first three years, and 75% thereafter, for investigation and prosecution of fraud and patient abuse in the State Medicaid program. The Fraud Unit must be separate and distinct from the State Medicaid agency, and must employ sufficient professional, administrative, and support staff to perform its duties and responsibilities in an effective and efficient manner.

The Department's Fraud and Investigation Unit does not meet the independence requirements to be certified and is, therefore, funded as Medicaid administrative costs at 50% federal match. In addition, no comprehensive program exists within the Department or other State agency to investigate and prosecute patient abuse issues. As of June 2005, Idaho and North Dakota are the only states without a certified Medicaid Fraud Control Unit.

Increased Funding

Moving the program to an independent entity, such as the State Attorney General's Office, would allow the program to be certified and receive five times more resources every year for the first three years, and double the current resources every year thereafter, without any additional General Funds. Total program funding could increase from \$400,000 to \$2,000,000 per year for the first three years and \$800,000 per year thereafter, based on the current General Fund share of \$200,000.

More Investigations and Recoveries

More suspected Medicaid fraud cases could be investigated and pursued, which would likely result in increased recoveries. A national report of certified units in other states for fiscal year 2003, showed that recoveries averaged more than \$2 for every \$1 in costs. The enhanced federal funding could also provide the resources necessary to establish a comprehensive program to seek out, investigate, and prosecute physical and financial abuses of elderly patients. Current national and local news stories about abuses of the elderly highlight the need for a program to address these issues in our State.

Other Benefits

Several other benefits result from establishing a certified Medicaid Fraud Unit. For example, an independent unit would allow investigations to proceed without any actual or perceived conflicts of interest. This would improve public confidence and ensure that investigations are resolved based on the merits of the issues.

Establishing the unit within the State Attorney General's Office would also provide a statewide platform in which to announce the efforts and results of fraud investigations and elder abuse. This public exposure would provide additional deterrence, and notify clients and providers that suspected cases of Medicaid fraud and elder abuse will be pursued.

RECOMMENDATION 05F-2

We recommend that the Department initiate a dialog with Executive and Legislative leadership to evaluate the merits of establishing a certified Medicaid Fraud Control Unit that could provide additional funding for investigating and prosecuting suspected cases of Medicaid fraud and patient abuse. We suggest that this dialog include the State Attorney General.

CORRECTIVE ACTION PLAN

The Department recognizes the need to add additional resources for fraud investigations. We concur with the auditor's recommendation that the Department should be a participant in any evaluation of establishing a certified Medicaid Fraud Control Unit (MFCU). However, we disagree that a MFCU would lead to financial benefit or increased investigations and recoveries. It is possible that a certified unit might be perceived as being more independent and provide more public exposure, but there is no clear evidence to support this conclusion. Moreover, the separation of fraud investigations from the Department might actually have a detrimental effect on the efficiency and effectiveness of the State's ability to timely pursue fraud, waste and abuse in its programs. The Department believes that the decision to establish an independent MFCU is a policy decision for the Legislative, the Governor's office, and Department heads.

Increase in General Fund Cost

Establishing an independent unit would result in increased costs from the General Fund. The 90% enhanced funding is essentially one time dollars to be utilized for start-up costs. These would include expenses such as vehicles, computers, software, equipment, training, or cost of developing legislation or policies and procedures. To properly evaluate the benefit of the enhanced funding we need to evaluate the cost of established units.

An independent certified unit has greater staffing requirements and costs that could not be saved or transferred from the Department or other agencies. Department does recognize the need to add additional resources for all fraud investigatory roles for proper staffing of fraud caseloads. The Department compared the costs of properly staffing the fraud unit within the Department against the cost of placing those resources in an independent and certified unit. The analysis identified that an established certified unit in the Attorney General's Office would cost more State dollars to maintain than it would to properly staff the fraud unit within the Department.

Investigations and Recoveries

The legislative auditor states that with a certified unit, more cases would be investigated and pursued, which would likely result in increased recoveries, and that nationally, certified unit recoveries averaged more than \$2 for every \$1 in cost.

The Department disagrees with this assertion. The number of cases investigated is primarily related to the number of investigative resources applied. A properly staffed investigative unit has the ability to pursue a limited amount of cases regardless of where it is located.

**Federal Findings and Questioned Costs
For Fiscal Year 2005**

Although the auditor correctly states that nationally certified units, on average, recovered \$2 for every \$1 cost, they did not mention that the costs used to compare did not include state costs, and the dollars cited as recoveries included both state and federal dollars according to the Office of Inspector General State Medicaid Fraud Control Unit Annual Report. Additionally, the national average for all states was inflated by substantial recoveries in a few states such as California, Texas and New Jersey. In fact, 9 out of 48 states accounted for all of the difference in the high recoveries to inflate the national average, and the remaining 39 state-certified units on average, broke even or recovered less than their cost of operating.

We believe there would be a loss of efficiency and possibly effectiveness for both the Department and Medicaid fraud investigations if the two were separated. During past discussions with other states relating to the effectiveness of fraud and abuse investigations, one of the key barriers identified is the relationship and communication between the state agency and the independent certified unit. Once preliminary investigations are referred to an outside entity for further investigation, it often creates a duplication of effort and reduces ability to timely respond to fraud. The current Fraud Unit works closely with other Department resources and systems such as Information Technology, Medicaid Information Systems, Surveillance and Utilization Review, Auditors, Support Staff, and Medicaid Staff, and has the ability to effect policy changes necessary to curb fraud and abuse.

The Department believes it is a policy decision for the legislature and the Governor's Office as to where the unit should be housed. House Bill 668 to establish an independent unit in the Office of the Attorney General to investigate and prosecute Medicaid fraud was defeated in the Senate Health and Welfare Committee. The Department believes that this issue needs to be studied to determine the requirements, costs, and benefits of an independent certified fraud unit. The Department needs to be directly involved in the evaluation of a certified unit.

FINDING 05F-3

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0405ID5028

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

The process for identifying and recording private health insurance coverage of Medicaid clients needs improvement.

Federal regulation (42 CFR 433.139) requires the Medicaid program to establish the "probable existence" of liable third parties at the time claims are paid. This follows the general concept that the Medicaid program is the "payor of last resort" when all other resources and liable third parties, including private health insurance, are exhausted. The greatest challenge in meeting this requirement is identifying health insurance that exists or becomes available while a client is eligible for Medicaid assistance.

The Department has a contract to identify Medicaid clients who have private health insurance as part of the overall third-party recovery efforts. The contractor uses a variety of processes to identify Idaho Medicaid clients who have health insurance with carriers across the nation. They also analyze provider claims that indicate other insurance has paid a portion of the costs. Claims that indicate other insurance has paid are referred to as "suspect claims."

Some insurance data known by providers is not pursued.

We analyzed all claims paid during February 2005 and identified 59,628 "suspect claims" where providers indicated a payment was received from

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an insurance resource. We performed a simple comparison of these claims with the record of known health insurance resources, and identified 1,168 claims (749 clients) in which resources known by providers were not entered in the Automated Information Management (AIM) system. Although providers sometimes identify amounts as "other insurance" in error, several claims that were examined more extensively identified insurance resources that were not entered in the AIM system.

Several reasons exist as to why other insurance data is not pursued. However, most instances result from changes in a client's insurance coverage or carrier that are not identified promptly and do not trigger a review of the suspect claim. Our review of suspect claims was performed nearly seven months after the claims were paid, and highlighted this situation. A retrospective review of suspect claims could identify new resources and reduce the delay in identifying policy changes or new insurance carriers.

Insurance resources are recorded that have little or no possibility for cost avoidance or recovery. We analyzed the nearly 82,000 insurance resources added to the Medicaid AIM system during fiscal year 2005, and identified 489 insurance resources with coverage periods that started after the client's Medicaid eligibility had ended. Obviously, no cost avoidance or recovery could occur, since no claims were paid during the insurance coverage period. Based on the contract rate of \$39 per insurance resource, the Department paid nearly \$20,000 for insurance resource data that had no chance for any cost avoidance or recovery at the time it was entered.

The contract and related documents require the contractor to identify and validate insurance coverage for Medicaid-eligible recipients that can be billed. Although this process is not specifically described, the volume of resources that do not overlap client eligibility indicates the need to improve the contract definitions, processes, and monitoring of this activity.

No comprehensive data match exists with Blue Cross or Regence Blue Shield of Idaho. The contractor uses an automated "data match" process to identify Medicaid clients who have health insurance coverage. However, a comprehensive data match process does not exist with Blue Cross or Regence Blue Shield of Idaho, the two insurance companies that cover more than 75% of all Idaho citizens (based on the Idaho Department of Insurance annual report for 2004).

Blue Cross and Regence Blue Shield both provide access that allows the contractor to search for clients. However, these current processes are limited and create inefficiencies that may allow omissions to occur. An enhanced process is needed to improve the time frame and ability to identify Medicaid clients who have health insurance coverage issued by Idaho-based companies. This effort may require legislation or administrative rules to establish the Department's ability to access private health insurance data.

RECOMMENDATION 05F-3

We recommend that the Department improve the processes and efforts to identify and record health insurance resources of Medicaid clients as follows:

- 1. Develop a retrospective review process for suspect claims, in order to identify insurance resources known by providers previously excluded from the process.**
- 2. Amend the contract to define a valid insurance resource as one where the coverage period overlaps the client's period of Medicaid eligibility. The Department should analyze all insurance resources added during the last year, and request a refund from the contractor for fees to add resources for clients who were not eligible during the insurance coverage period.**
- 3. Coordinate the establishment of an enhanced data match process with Idaho-based private insurance companies to improve the efforts to identify Medicaid clients having health insurance. This may require the assistance of the Idaho Department of Insurance and legislation to establish the Department's ability to access this data.**

CORRECTIVE ACTION PLAN

We disagree that insurance data is not pursued. We believe that the insurance resources recorded do avoid cost or lead to recoveries. We are currently researching other state laws regarding comprehensive insurance data.

Some insurance data known by providers is not pursued. We believe that insurance data is pursued. We base this conclusion on a thorough review of ten randomly selected cases out of the 1,168 claims the auditor suspected. In all of the cases we reviewed, insurance data, if warranted, was pursued. eight cases (80%) were pursued to the fullest extent possible. In four of the eight cases, insurance information was already recorded so additional insurance data was not needed. In two of the eight cases the only insurance was Medicaid, so additional insurance data was not needed. In one of the eight cases the claim was denied by Medicaid, so no additional insurance data was needed. In one of the eight cases the claim was electronic, which does not include the insurance name, and despite the lack of information, the contractor made efforts to obtain insurance information from both the client and doctor. Two cases (20%) were pursued but the process could be strengthened because it was later found that the insurance companies had provided incorrect information about the clients.

Insurance resources are recorded that have little or no possibility for cost avoidance or recovery. We know that some of the 489 questioned insurance records probably avoided cost or lead to recovery. We also know that some of the 489 records were not billed to the Department. It is true that some of the 489 questioned insurance records ultimately did not result in cost avoidance, but it is impossible to know which records will yield future cost avoidance and which will not. The reason that insurance records are useful for clients whose eligibility ends is because clients often return to eligibility while insurance is available. We reviewed most of the 489 entries questioned by the auditor and found many examples (more than 20%) where clients were eligible at the time insurance was added or became eligible again during the period of recorded insurance. Unfortunately, it is not possible to measure how much cost was avoided from the 489 insurance records. The Department must rely on judgment for setting the parameters for accepting and paying the contractor for insurance records. We believe that the parameters for recording insurance after eligibility ends will reasonably assure that avoided costs and recoveries will at least pay for the cost of the insurance data.

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FINDING 05F-4

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0405ID5028

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: E – Eligibility

Questioned Costs: Not determinable

No comprehensive data match exists with Blue Cross or Blue Shield of Idaho. We agree that legislation may be required to obtain information more efficiently from some Idaho insurance administrators. The Department has been involved in researching legislation in other states in order to recommend changes.

Medicaid eligibility continues to be improperly determined, due primarily to the outdated automated system.

The prior two audit reports included issues relating to errors in determining Medicaid eligibility, and delays in processing applications and completing re-determinations of eligibility within the required time frames. Improvements were made to the processes, additional staff was authorized, and training and quality review programs were established. However, the volume of errors remains high, and the primary factor not yet addressed by the Department is the outdated automated Eligibility Program Information Computer System (EPICS) used to process and record Medicaid eligibility.

The federal grantor has provided funding to evaluate Medicaid eligibility and payment errors over the past several years, the current results of which were disclosed in the *Payment Error Rate Measurement Report* issued in October 2005. This report indicates that the error rate for determining eligibility for Medicaid has remained at 10% for the past two years. The eligibility error rate for the Children's Health Insurance Program (CHIP) has improved, but remains very high at nearly 30%. These error rates indicate that more than 20,000 clients, many of whom are ineligible for any type of Medicaid assistance, are incorrectly determined eligible.

Several reasons for payment errors were described in the report, but the cause for the high eligibility error rates was not specifically identified. Based on our tests and evaluation of the processes used to determine eligibility, we believe the EPICS system is the primary factor contributing to these high error rates.

The process for determining Medicaid eligibility requires gathering relevant data about a client, household composition, income, resources, and a variety of other factors. This data is entered into EPICS and, through various automated methods, provides management data to staff for use in determining eligibility, timing re-determinations, and generating information necessary to ensure that benefits to clients are properly calculated and supported.

EPICS works well at processing and storing data, but this system was originally developed during the early 1980's and has been extensively modified over the past 25 years. The core software and system processes do not integrate well with current technology and Web-based applications. Other factors limit the functionality and controls needed to assist staff in correctly determining eligibility and linking with other essential data sources. It is these conditions that create the opportunity for errors, and limit the efficient and effective processing of applications and eligibility determinations.

Data in EPICS is also used to support eligibility for many other benefit programs managed by the Department. This data is shared electronically with other automated systems to process payments, determine eligibility, or provide updated client information. These other programs are adversely affected by the limitations of EPICS to process data in the current automated environment.

The Department requested funding for fiscal year 2007 to replace the system; however, this was not included in the Governor's budget recommendation to the Legislature. Although some efforts can be taken with existing funding, a specific budget unit and organized project is needed to address this critical need.

RECOMMENDATION 05F-4

We recommend that the Department identify the processes and issues that cause Medicaid eligibility to be improperly determined. Corrective action is also needed to address payment processing errors reported in the *Payment Error Rate Measurement Report*. We also recommend that the Department continue to seek resources to replace EPICS.

CORRECTIVE ACTION PLAN

The Department has taken steps to improve the quality and timeliness of Medicaid eligibility determinations. Modifications have been made in the EPICS system that will allow workers to more accurately select the correct coverage group for applicants. Modifications go into effect in April 2006 to renewal processing in the automated system.

The Department has applied for, and expects approval of, a Medicaid waiver to allow all children with income below 185% of poverty to be in one benefit plan. This change to policy will virtually eliminate coverage group errors for children. This policy and other simplifications will allow workers over time to progress toward timely processing of applications and renewals for family based Medicaid.

The Idaho Legislature approved \$2.1 million from the General Fund to begin replacement of the EPICS system. This money will receive federal match and allow the Department to replace the existing system over the course of the next 2 to 3 years.

FINDING 05F-5

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0405ID5048

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not Determinable

Essential edits in the Medicaid claims payment system are disabled and allow claims to be paid in error.

Each state Medicaid program is required by Title XIX of the Social Security Act and federal regulations (42 CFR 433) to operate an automated claims processing system. These systems are generally referred to as Medicaid Management Information Systems (MMIS) and must meet strict standards for operation, as described in the *State Medicaid Manual* published by the federal grantor, Centers for Medicare and Medicaid Services (CMS).

The processing system must meet several basic procedures to ascertain that each claim includes proper information about the client, provider, type of service, and other data that ensure the claim is supported and the amount paid is accurate. Automated system edits, calculations, and

comparisons are required to ensure the accuracy of claims processing to reduce or eliminate the opportunity for errors.

We analyzed claims paid from January to June 2005, and determined that several system edits that ensure the accuracy and validity of claim payments were disabled during this period. For example, the two edits that ensure each claim properly identifies the client and the provider were disabled. These edits match the names and identification numbers on the claims to the list of authorized providers and eligible clients, and are essential to ensure the accuracy of payments.

We identified nearly 500 claims paid between January and June 2005, in which client names and identification numbers did not agree to the record of eligible clients. Our limited review of 30 clients showed at least three instances in which the client actually served was incorrectly entered. In one instance, the claim was paid in error because the actual client was not eligible on the date of service.

We also noted that the edit to deny claims resulting from injuries or accidents was also disabled. This edit is intended to ensure that Medicaid is the payor of last resort, and require providers to seek payment from other liable sources. These other sources are generally casualty or liability insurance in connection with injuries sustained in a vehicle accident, or where other liability coverage may exist.

As a result, claims are paid that should be denied when other liable resources relating to injury or accident claims may exist.

RECOMMENDATION 05F-5

We recommend that the Department enable all essential system edits to ensure the accuracy of claims paid, and ensure that Medicaid is the payor of last resort when claims relating to injuries or accidents are submitted.

CORRECTIVE ACTION PLAN

For the following reasons, we disagree that essential edits are disabled.

The edit that matches a client's name and number to Medicaid records was in test in January and February 2005, to determine the most effective way to handle mismatches. However, it was turned on March 1, 2005, and has been in place since that time. Paper claims that do not match both name and number are visually reviewed and electronic claims that do not match both name and number are automatically denied. We did not review the specific claims found by the auditor so we are unsure if they are errors. However, this edit is in place and working as intended and has been for over a year. Based on the auditor's sample, a projection of the error rate would result in a potential of 100 errors (3 errors/30 sampled, 500 claims, 6 to 12 months per year) out of 10 million claims last year (0.001%). It is very possible that the errors occurred during the test period or were mistakes in the manual process of visually comparing paper claims. Despite this low error rate, we will request a copy of each identified error and determine the cause.

The edit that checks for "injury accident" claims is active. These claims are automatically "pending" for further review except for Medicare claims which we are federally mandated to pay. It is possible that the claims questioned by the auditor were Medicare claims, which we are required to pay, or manually reviewed claims that were ultimately paid for some reason. We do not have the

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claims the auditor is questioning, but we will request them to determine if there were actual problems.

FINDING 05F-6

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0205ID5028

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

The Healthy Connections Medicaid program is not cost effective for at least two of four eligibility groups.

The Healthy Connections program is a "freedom of choice" waiver under Title XIX, section 1915(b) of the Social Security Act, intended to reduce Medicaid costs by assigning clients to primary care physicians who will manage their medical needs. The general concept of this waiver program is to reduce unnecessary utilization of high-cost services such as emergency rooms, inpatient hospitalization, and specialists, without adversely affecting the quality or access to medical services by clients.

The federal grantor requires that all waiver programs are cost effective or cost neutral, meaning that the savings are at least equal to or greater than the cost of the program. A calculation of the cost savings for the Healthy Connections program is performed each quarter by the federal grantor, based on financial and statistical data provided by the Department. This calculation divides clients enrolled in the program into four Medicaid eligibility groups to reduce the effects of different eligibility criteria and utilization.

Based on the calculations provided by the federal grantor for fiscal year 2005, two of the four Medicaid eligibility groups have not been cost effective over the past three quarters, and a third group has not been cost effective in the most recent quarter. Although the program encourages providers to accept more Medicaid clients, it apparently does not result in a reduction in total Medicaid costs. The federal grantor may suspend the waiver, and could seek recovery of excess costs of operating the program.

RECOMMENDATION 05F-6

We recommend that the Department reevaluate the Healthy Connections waiver and discontinue this program, or consider incorporating it into the State Plan to eliminate the need to justify cost effectiveness and eliminate the potential refund of program costs to the federal grantor.

CORRECTIVE ACTION PLAN

Idaho is undertaking a significant Medicaid reform effort, beginning in July 2006. Under the reform proposal, Idaho will break its current single State Plan into three distinct State Plans for the following three populations: 1) low-income children and working-aged adults; 2) individuals with disabilities and special needs; and 3) elders, including those who have Medicare coverage. Healthy Connections will no longer be segregated into a separate 1915(b) waiver, and will be incorporated into each of the three State Plans under a section 1115 waiver along with other reform components. The 1115 waiver must meet federal budget neutrality requirements similar to cost-effectiveness tests for a 1915(b) waiver. The Healthy Connection program component will not maintain a separate cost-effectiveness test. Additionally, waiver budget neutrality is measured for the entire scope of the waiver for the duration of the waiver period. There is no risk of potential refund for any specific Medicaid Eligibility Group (MEG) or any specific quarter if the overall waiver scope for the entire waiver period meets the budget.

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FINDING 05F-7

CFDA Title: Medical Assistance Program

CFDA #: 93.778

Federal Award #: 05-0405ID5028

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

Efforts by the Child Support program to recover Medicaid birth costs are not consistent.

The Medicaid program is responsible for pursuing all liable third parties for medical costs paid by the program. Part of this responsibility is assigned to the Child Support program to pursue non-custodial parents for birth costs paid by the Medicaid program.

The collection of birth costs by the Child Support program have increased steadily since this effort was re-established in January 2002, as shown in the following table:

<u>Fiscal Year</u>	<u>Collections</u>
FY 02	\$642,298
FY 03	1,454,992
FY 04	2,585,492
FY 05	2,448,224

However, our limited tests showed that as many as one-third of all single-parent birth costs paid by Medicaid (6 of 19 cases tested) were not pursued by the Child Support program. Four of these cases did not have a child support case established, and two had a case established, but birth costs were not pursued or included in the court order.

It is the general practice of the Child Support program not to pursue birth costs from the biological father if he resides with or subsequently marries the mother. However, if the income and resources of the biological father are not considered when determining eligibility, then he is a third-party resource, as defined by Medicaid regulations, and must be pursued. The Child Support program may exclude cases from pursuit when such efforts would put the custodial parent at risk. However, no documentation was available to support the reasons for not pursuing birth costs or establishing a child support case.

As a result, we estimate that recoveries could increase by \$500,000 or more annually, if child support cases were established and pursued in all instances involving birth costs of a single-parent Medicaid client.

RECOMMENDATION 05F-7

We recommend that the Department pursue birth costs from all biological parents who are not included on the application for Medicaid assistance. Child support cases should be established for all clients, and the reasons for not pursuing birth costs documented, where appropriate.

CORRECTIVE ACTION PLAN

Medicaid has asked for and received guidance from CMS on the pursuit of birth costs from absent parents. Their guidance stated:

... there is no federal requirements that states must collect birthing costs. Section 1902(a)(25)(A) of the Social Security Act (the Act) requires that states "take all reasonable measures to ascertain the legal liability of third parties ... to pay for care and services available under the plan." Federal regulations at 42 CFR 433.138, lay out some specific measures that states are required to pursue to determine

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legal liability . . . Other 'reasonable' measures are left up to the discretion of the state, such as whether or not to pursue birthing costs. . .

While a few states have opted to pursue birthing costs, other states have viewed the collection of birthing costs as a deterrent to voluntary paternity establishment and therefore, serves to weaken the potential for developing strong relationships between fathers and their children. . .

Medicaid is reviewing this issue with program experts and the Deputy Attorney General's Office and will present options to the Director.

FINDING 05F-8

CFDA Title: Child Support Enforcement

CFDA #: 93.563

Federal Award #: G0404ID4004

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

The number of child support cases with debt errors has declined, but remains high.

Child support obligations are established by an order of the court and recorded in the Department's sophisticated computerized program known as the Idaho Child Support Enforcement System (ICSES). This system has features to record and accrue debt amounts, track collections, and distribute funds on multiple debts. Total debt balances on the nearly 82,000 open cases in the system, as of June 2005, were approximately \$490 million.

We reported in a prior audit that more than 75% of child support debts pursued by the Department were the wrong amount or type of debt. Significant improvements have been made in the procedures to establish and adjust debts in ICSES, and several hundred cases are reviewed every month by a contractor to identify and correct debt errors. Review efforts have focused on cases where the client has complained, or the case worker has noticed a potential error in the debt balances. These improvements and focused reviews have reduced the number of cases with debt errors to approximately 20%, based on our current sample results.

However, this still represents more than 16,000 cases (20% of 82,000) where the Department is pursuing the wrong amount or type of debt. At the current volume of reviews performed each month, it will take more than ten years to work through all existing cases to identify and correct debt balance errors. The Department's request for additional funding to address this issue was not included in the Governor's recommendation in the fiscal year 2007 budget. In addition, changes in program requirements at the federal level will likely reduce grant funds in the coming year and place additional demands on State resources to meet program needs.

RECOMMENDATION 05F-8

We recommend that the Department enhance the efforts to review and correct child support debts. The Department should continue to pursue additional resources to address this issue in order to complete this effort within a reasonable time frame, perhaps within the next two to three years.

CORRECTIVE ACTION PLAN

Child Support will continue working on improving the accuracy of debt balances by continuing to audit approximately 400 cases per month with the budget we have available. We requested an additional \$3.1 million in FY 2006 that the legislature did not fund. We also requested an additional \$3.1 million in FY 2007 that was not approved by the Governor.

We will also continue to improve our financial accuracy through the ongoing re-engineering of child support processes, with the focus on improving the quality of case management work. We will continue to enhance and clarify policies, make automated systems changes and consolidate and standardize practices with regard to setting up court orders, debts and financial adjustment activities.

FINDING 05F-9

CFDA Title:

Child Care and Development Block Grant

CFDA #: 93.596

Federal Award #: G0401IDCCDF

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

Child care benefits are calculated on market rates and poverty tables that are more than five years old.

The Department's administrative rules for the Child Care Program (IDAPA 16.06.12) describe the methods for calculating benefits provided to clients. Benefits are based primarily on surveys of rates charged by child care providers and a sliding fee scale based on the federal poverty rate. Surveys are required at least every two years (rule 305.01(d)), and the poverty rate is the established rate published annually in the federal register (rule 307.01). However, these key calculation components have not been updated for more than five years.

The current benefit calculation uses survey results as of January 1, 2001, and the sliding fee scale is based on federal poverty rates in effect through March 17, 1999. As a result, lower amounts of assistance are provided for those clients most in need, while excluding others whose income is less than current poverty amounts from receiving any assistance. This approach has limited the program growth with the unintended result of inhibiting access for the working poor and the potential success of the program.

The reason for using old market surveys and poverty rates is likely an intended method for managing the growth in program costs. However, this approach undermines the integrity of the administrative rules and related processes that ensure appropriate and equitable access to benefits.

RECOMMENDATION 05F-9

We recommend that the Department base the child care benefit calculation on current market rate surveys and federal poverty rates, as required by administrative rule. Efforts to manage the growth in program costs should rely on appropriate processes to adjust administrative rules or other factors used to determine benefit amounts and client eligibility.

CORRECTIVE ACTION PLAN

The Department surveys market rates every two years, but is not required to adjust the market rate because of the survey. The Division disagrees that this rule requires poverty rates used for payment be based on the current federal register. IDAPA 307.01. refers to poverty rates as established annually in the federal register. The Idaho Child Care Program (ICCP) does not interpret this rule as a requirement to adjust the poverty limits annually. There is no federal mandate that the poverty limits are adjusted annually.

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Bringing the poverty rate current in ICCP would result in an estimated increased expense of \$2 million. Raising the market rate is an estimated increased expense of \$1.5 million. This totals \$3.5 million that is not available in ICCP budget.

There are currently a number of priorities under consideration to be balanced against the available ICCP budget. Raising the market rate and bringing the poverty limits current are being considered. The Division of Welfare takes the responsibility of serving ICCP customers very seriously. It is important that the limited money available be used to provide services to those who need it most.

FINDING 05F-10

CFDA Title: Temporary Assistance to Needy Families (TANF)

CFDA #: 93.558

Federal Award #: G0401IDTANF

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: B – Allowable Costs

Questioned Costs: \$2,056 in medical costs;
other amounts not determinable

TANF funds are used for medical costs, foster care services and other unallowable activities.

Federal funds under the Temporary Assistance to Needy Families (TANF) program are available for a variety of services to clients, and are distributed to several programs across multiple divisions within the Department. Costs are allowable if they directly meet one of four federal program purposes, or were specifically authorized under prior federal law and the Department's 1995 State Plan. Federal regulations prohibit the use of TANF funds for medical services.

We reported in the prior audit that TANF funds were used for medical costs and other unallowable services. Improvements in supervisory oversight and Department policies have been made over the past several years, reducing the number of questionable or unallowable expenditures. However, we continue to identify expenditures for various costs that are specifically unallowable, or for services to families with incomes that exceed established limits.

Medical services are charged to TANF in error.

Federal regulations and the Social Security Act (Title IV-A section 408(6)(A)) prohibit the use of TANF funds for any type of medical services. We identified \$2,056 in orthodontic and other medical costs paid with TANF funds that are specifically not allowable.

Unallowable foster care costs were paid using TANF funds.

Foster care costs for children eligible under the Title IV-E Foster Care Grant cannot be paid with TANF funds.

Eligibility for Title IV-E foster care services must be completed within 30 days, as required by Department policy. However, the Department routinely uses TANF funds to pay all costs for the first 90 to 120 days for most new foster care cases, prior to charging other programs depending on a child's eligibility. As a result, TANF funds are used improperly to pay for services after a child's eligibility under the Title IV-E Foster Care Grant has been determined. The amount of unallowable costs is not readily determinable due to the many variables and conditions that exist.

The Department also uses TANF funds to pay foster care costs for children placed with a non-relative, as authorized under prior law and the State's 1995 State Plan. These costs must be reported separately in the federal quarterly grant reports. However, since the TANF program began in 1996, no amounts have ever been reported.

Emergency conditions beyond a family's control are not properly documented.

The State Plan allows the use of TANF funds to assist families if their income is at or below 200% of poverty, or they are unable to meet an "emergency condition" due to circumstances beyond their control. In several cases we reviewed, assistance was provided to families with incomes that exceeded 200% of poverty, and the documented circumstances did not indicate an emergency condition existed or that the events were beyond the families' control.

For example, nearly \$6,000 in TANF funds was used to pay for a vinyl fence because the family's child was at risk of wandering away from home. The family owned and operated a business with income above 200% of poverty. These factors were known at the time of application, but a financial analysis was not prepared to identify the family's income or resources. Assistance was provided based on the family's representation of their inability to resolve the emergency due to "circumstances beyond their control."

We question the conclusion that the child was in an "immediate danger of a life-threatening or emergency situation," or that the circumstances were beyond the family's control or financial resources. In addition, purchasing a high-quality vinyl fence to enclose the family's entire yard does not appear to be the lowest cost option for resolving this situation.

RECOMMENDATION 05F-10

We recommend that the Department review all foster care costs paid with TANF funds, in order to identify the amounts allowable under prior law, and amend the federal quarterly reports for the past year to accurately reflect the amounts. The Department should amend the current TANF State Plan to clarify the circumstances for which foster care costs are allowable, and develop new coding structure to properly report these costs in the future.

We also recommend that the Department reaffirm with staff, the requirements for documenting family income and emergency conditions when authorizing services using TANF funds, and return \$2,056 to the federal grantor for medical costs charged to the TANF Grant in error.

CORRECTIVE ACTION PLAN

Response regarding medical services are charged to TANF in error: We concur that costs of \$2,056 were charged to TANF in error, since they were clearly medical in nature. Upon receiving notice of this error, FACS [Family and Community Services] informed management in Region 7 and learned that the staff person involved has received correction.

The Statewide Emergency Assistance Management (SEAM) Team was informed of this error and will reinforce the exclusion for medical expenses in its training of current staff and new Navigator staff who will assume responsibility for TANF-funded emergency assistance in the next few months. FACS will adjust the transactions to a proper funding source and return the \$2,056 to the TANF grant.

Response regarding unallowable foster care costs were paid using TANF funds: The FACS Division has charged foster care payments to TANF based on its invocation of the pre-existing 1993 State Plan which authorizes such. Attachment

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3-A of this 1993 State Plan describes "Kinds of assistance provided to meet emergency situations" to include "foster family care, or residential care for children separated from their parents, including food, clothing, and supervision unless the child has such assistance provided under Title IV-E...."

The Department will amend its TANF State Plan to 1) cite its invocation of the pre-existing 1993 Plan as the authorization for charging foster and residential care to TANF, and 2) describe the circumstances for which foster care costs can be charged to the TANF grant.

The FACS Division will reinforce the need to switch funding for foster care promptly to sources other than TANF upon the establishment of eligibility for Title IV-E. Users of FOCUS [Family Oriented Community User System] (which processes TANF payments for foster care) will make these adjustments as soon as they receive the automated alert that IV-E eligibility is established.

The FACS Division also asks for further clarification on the auditors' claim that "most costs in question do not meet the requirements described in the pre-existing State Plan."

Response regarding emergency conditions beyond a family's control are not properly documented: The Department concurs with this finding in that its own internal review process (conducted by the Local EA [emergency assistance] Management Team) independently found error in the EA application resulting in the purchase of a \$6,000 vinyl fence. Department staff did not document the family's income or access to additional resources on the specified application budget sheet. Beyond this procedural error, the Department notes that staff did not exercise diligence in researching the availability of both lower-cost alternatives to the vinyl fence and financial resources otherwise accessible to the family.

This case was considered at the most recent SEAM meeting of March 8, 2006. SEAM members reaffirmed that budget documentation is required for making the income eligibility decision and that the State pursue the most economical responses to EA applications. SEAM will emphasize this in training to current staff and new Navigator staff, who will assume responsibility for Emergency Assistance applications on a statewide basis in the next few months.

FINDING 05F-11

CFDA Title: Food Stamps Administration and Certification

CFDA #: 10.561

Federal Award #: 7ID400ID4

Program Year:

October 1, 2003 to September 30, 2004

Federal Agency:

Department of Health and Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

Food stamp error rate continues to exceed the allowed percentage and will result in additional financial sanctions.

The fiscal year 2003 audit report found that the food stamp error rate in Idaho had exceeded the allowed maximum for the past two years. This trend has not improved, and a financial sanction of \$277,464 was imposed on the Department by the federal grantor for fiscal year 2004. A larger sanction is likely for fiscal year 2005.

Federal regulations (7 CFR 275) require states to limit the number of errors when determining food stamp benefits and eligibility. Errors are identified as either over- or under-payments, or "negative errors," which represent individuals who were improperly denied assistance. The maximum acceptable payment error rate, as set by the federal grantor, has declined steadily over the past several years, and is currently 5.88% for fiscal year 2005. States with an error rate greater than this may be sanctioned, while those with a lower payment error rate could receive additional funding.

**Federal Findings and Questioned Costs
For Fiscal Year 2005**

The Department's payment error rate for fiscal year 2004 was 9.18%, which exceeded the allowable rate of 6.64% and resulted in a sanction of \$277,464. Although the Department has reduced the error rate, as shown in the following table, it continues to exceed the allowed rate and will likely result in another sanction for fiscal year 2005. The amount of the sanction is not yet determined, but could exceed the prior year's amount based on the factors used by the federal grantor to calculate sanctions.

Year	Allowed Rate	Payment Error Rate	Sanction	Negative Error Rate
FFY 2002	8.26%	9.04%	\$45,677	5.25%
FFY 2003	7.64%	11.31%	\$0	10.05%
FFY 2004	6.64%	9.18%	\$277,464	10.93%
FFY 2005	5.88%	8.23%	unknown	10.61%

Note: The sanction for federal fiscal year 2002 was waived, and no sanctions were imposed on any state for federal fiscal year 2003.

The negative error rate, which represents the percentage of clients who were denied benefits in error, has remained above 10% for the last three years. Although the federal grantor does not sanction states for this type of error, the effect is that nearly 3,000 families in Idaho were improperly denied assistance during 2005.

The Department received additional resources and staff during the fiscal year 2005 legislative session, which allowed reductions in case loads per worker, and improvements in the monitoring, review, and quality control functions. These efforts are reflected in the declining error rates. However, errors continue to occur beyond the allowed limits, due primarily to the outdated EPICS eligibility system used to record and process applications and benefits.

As mentioned earlier, EPICS was initially installed in the early 1980's and has undergone significant adjustments and modifications during the last 25 years. However, this system uses outdated technology with significant limitations and the inability to integrate with newer systems and Web-based applications. All of this combines into a situation where food stamp error rates will likely remain at unacceptable levels for the foreseeable future.

RECOMMENDATION 05F-11

We continue to recommend that the Department improve the accuracy of the eligibility process to reduce payment errors and negative error rates, in order to avoid additional sanctions and the consequences to needy families who are denied assistance in error. A renewed effort to seek funding to replace the outdated EPICS eligibility system should be considered.

**Federal Findings and Questioned Costs
For Fiscal Year 2005**

CORRECTIVE ACTION PLAN

The Corrective Action Plan to further reduce the error rate is a three-pronged approach.

1. To realize immediate results, the Division is reviewing all cases with benefits exceeding \$300 prior to the release of these benefits. This activity was selected in FFY 2005, 41% of all errors were in cases with benefits exceeding \$300. This activity is being funded by a reinvestment of the sanction.
2. To achieve mid- and long-term sustainable improvements, the Division is taking specific steps to reengineer the business processes and food stamp policy to improve the initial application and application for recertification functions.
3. The quality assurance data indicates that 60% of the errors occur in these two functions. To achieve long-term sustainable improvements, the Department now has funding and is reengineering and replacing the EPICS system.

CONTACT PERSON:

Karl Kurtz, Director
Department of Health and Welfare
208-334-5500

VOCATIONAL REHABILITATION, DIVISION OF

FINDING 05F-12

CFDA Title: Rehabilitation Services Basic
Support Grant

CFDA #: 84.126

Federal Award #: H126A050016

Program Year:

October 1, 2004 to September 30, 2005

Federal Agency: U.S. Department of Education

Compliance Requirements:

B – Allowable Costs/Cost Principles

Questioned Costs: \$432,400

The Division is not in compliance with the requirements for allowable costs for the Rehabilitation Services Basic Support Grant.

The Rehabilitation Services Basic Support Grant assists the Division in operating statewide comprehensive vocational rehabilitation programs. These programs include, but are not limited to, assessment, counseling, vocational and other training, job placement, and rehabilitation technology. Each program is an integral part of a statewide workforce investment system and is designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities. These services assist disabled Idaho residents in retaining or entering into employment commensurate with their abilities, skills, and desires. During fiscal year 2005, the State spent more than \$13 million in Basic Support Grant funds, and the State matched this grant with more than \$3 million.

The Division must comply with several federal regulations for the Basic Support Grant, including specific regulations related to allowable costs and other cost principles. The Office of Management and Budget (OMB) *Circular A-87, Cost Principles for State, Local and Indian Tribal Governments*, lists the primary requirements for establishing allowable costs. This guidance also provides the methodologies for charging these costs to grants. The following are examples of non-compliance with these cost principles.

1. The Division is charging indirect costs without an approved plan. Indirect costs are those incurred for a common or joint purpose, benefitting more than one objective, and that cannot be readily identified with a particular final cost objective. *OMB Circular A-87* explains how to develop an indirect cost proposal with the proper documentation. The proposal is then submitted to a cognizant agency for approval of an indirect cost rate.

The Division submitted an allocation proposal to the U.S. Department of Education (USDE) in fiscal year 2002. This allocation proposal was rejected, and the Division was asked to provide an indirect cost-rate proposal. The Division submitted an indirect cost-rate proposal dated August 26, 2004. Additional information was requested by the USDE, but the Division has not yet provided the information. As a result, the Division has not complied with this requirement, and has charged indirect costs based on an unapproved cost-rate proposal.

2. *OMB Circular A-87* also states that costs allocable to a particular federal award or cost objective may not be charged to other federal awards. The Division charged the Basic Support Grant \$432,400 in costs allocable to eight other State and federal programs. These costs were charged to the Basic Support Grant because the cost limits for the other programs had been reached. The Division's allocation plan set amounts that could be charged to the eight other State and federal grants. When these amounts were reached, all remaining indirect costs were charged to the Basic Support Grant.
3. *OMB Circular A-87* requires employees who work on multiple activities or cost objectives to support time worked with activity reports, approved time sheets, or equivalent documentation. A statistical sampling system or other substitute system may be used if approved by the cognizant federal agency. Payroll costs of \$7 million for 135 Division employees charged to the Basic Support Grant were not properly supported with time certifications, time sheet work activities, or other approved methods to determine allowable personnel costs. The Division reduced each payroll draw by \$25,000 to compensate for employees' time not attributable to the grant. This method was not approved by the cognizant federal agency, the USDE.

The Division did not know this federal regulation existed. Therefore, it has not maintained the required documentation. As a result, the grant may have been over- or under-charged the appropriate amount for payroll costs.

Similar issues were also identified in the USDE's Rehabilitation Services Administration *FY 2004 Annual Review Report* of the Division issued December 13, 2005.

RECOMMENDATION 05F-12

We recommend that the Division obtain an approved indirect cost-rate plan and properly document payroll costs. We also recommend that the Division consult with the USDE regarding the questioned costs.

CORRECTIVE ACTION PLAN

The Division has been utilizing an indirect cost allocation plan not approved by the cognizant agency. This plan redistributes costs applicable to non-federal programs and reduces the amounts charged to the Basic Support Grant by those amounts. This results in a shifting of costs from the Basic Support Grant to other federal and non-federal programs. We limited the amount shifted by 10.07% for

**Federal Findings and Questioned Costs
For Fiscal Year 2005**

all programs except the Community Supported Employment Grant, which was limited to 5%. We then charged any excess to the Basic Support Grant. The Division has since filed an indirect cost rate proposal dated March 10, 2006. The rate proposed is 10.67%. The Division will also draft a policy and implement a new system for personnel activity reporting in compliance with OMB Circular A-87, with a start date of April 9, 2006. This will allow for the proper documentation of payroll costs in accordance with *OMB Circular A-87*.

FINDING 05F-13

CFDA Title: Rehabilitation Services Basic Support Grant

CFDA #: 84.126

Federal Award #: H126A050016

Program Year:

October 1, 2004 to September 30, 2005

Federal Agency: U.S. Department of Education

Compliance Requirements:

C – Cash Management

E – Eligibility

L – Reporting

Questioned Costs: Not determinable

The Division did not fully comply with all federal requirements for the Basic Support Grant.

As stated in the prior finding, the Basic Support Grant assists the Division in operating statewide comprehensive vocational rehabilitation programs. *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* establishes 12 compliance requirements for the Basic Support Grant. The Division did not fully comply with three of these requirements, including cash management, eligibility, and reporting. The following explains this non-compliance.

1. **Cash Management** – Cash management requests for reimbursement of costs spent on the grant are required to be supported with proper documentation prior to the reimbursement request. The Division requested \$500,000 in cash draws in both January and May 2005, without supporting documentation for the costs incurred. Although costs related to the federal program were incurred when the funds were requested, the supporting documentation was not prepared. Division staff confirmed program costs to support the draw requests were not identified, and funds were drawn to pay for ongoing expenditures.
2. **Eligibility** – Grant requirements state that an applicant's eligibility for services must be determined within a reasonable period of time, not to exceed 60 days after the individual has submitted an application. Exceptions to the 60-day requirement include documentation (1) of exceptional and unforeseen circumstances, and that the Division and individual agree to a specific time extension; or (2) that the Division is exploring an individual's abilities, capabilities, and capacity to perform in a work situation through trial work experiences.

A report from the Division's case management system listed 450 new Vocational Rehabilitation clients between October 1, 2004 and September 30, 2005, whose eligibility determination extended beyond the 60-day requirement. Eligibility extension could not be verified for 153 clients, because there was no supporting documentation to show they met exceptions for the extension. No reason was given for the lack of proper documentation.

3. **Reporting** – Amounts reported to the federal government are required to be accurate, complete, and in agreement with the accounting records. The *Program Cost Report (RSA-2)* showed \$16,514,000 in expenditures for the period October 2004 through September 2005. This is an annual report that shows

the Basic Support Grant and the Supported Employment Grant expenditures and outstanding obligations. The *Financial Status Quarterly Report* (SF-269) showed \$13,872,000 in expenditures for the same time period, for the Basic Support Grant expenditures only. As identified in another finding, the Division allocates costs from the accounting system to report program expenditures through an allocation process that is not approved by USDE. Therefore, the amounts on both reports are not accurate, due to the improper allocation.

The USDE's Rehabilitation Services Administration reported issues similar to these in its *FY 2004 Annual Review Report*.

RECOMMENDATION 05F-13

We recommend that the Division take steps to fully comply with applicable federal requirements by (1) documenting all costs prior to requesting reimbursement, (2) documenting all eligibility determination extensions, and (3) correcting the required reports to show proper federal costs.

CORRECTIVE ACTION PLAN

1. The Division conducted an analysis of its documentation of costs prior to reimbursement, and discovered that in two instances complete documentation was not provided. However, the draws were for current expenditures, and to supply needed cash for current expenditures. The Division has since received borrowing authority from the Division of Financial Management to provide cash in the future. The Division will also ensure that adequate cost documentation exists before draws are processed.
2. Corrective action will be taken to ensure that this finding is not repeated. That action will include the creation of a critical case documentation template that specifically directs the counselor to complete an electronic form that will establish a specific time frame and justification for extending eligibility determination. The system will impose an activity-due reminder to ensure that the decision is completed within the extended time frame. Staff will be trained and familiarized with the program modification by April 30, 2006.
3. The Division has performed an analysis of outlays reported on the SF-269 for the Basic Support Grant Award and determined that some of those outlays were to provide services to non-vocational rehabilitation clients. The amount of \$71,979 allocated improperly to the Basic Support Grant was for services provided to non-vocational rehabilitation clients in the State Community Supported Employment Work Services program. As of March 31, 2006, all required reports have been corrected and entered into the automated report system. The cognizant agency representative, Joe Pepin, has been notified of this completion. This error resulted from errors in our systematic process, and this has since been rectified.

CONTACT PERSON

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STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF PRIOR FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Department Federal Program	State Agency	CFDA Number	Questioned Costs	Current Status	Finding Reference
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AGRICULTURE, DEPARTMENT OF

State Admin. Match/Food Stamp Program	Health and Welfare, Department of	10.561	N/D	Closed	03F-3
Forest Service Weed Grant	Agriculture, Department of	10.664	N/D	Closed	02F-1

HEALTH AND HUMAN SERVICES, DEPARTMENT OF

Temporary Assistance for Needy Families	Health and Welfare, Department of	93.558	\$1,831,578	Open	04F-1
Child Support Enforcement	Health and Welfare, Department of	93.563	N/D	Open	04F-2
Child Support Enforcement	Health and Welfare, Department of	93.563	N/D	Closed	04F-3
Children's Health Insurance Program (CHIP)	Health and Welfare, Department of	93.767	4,000,000	Open	04F-4
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	Closed	04F-5
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	Open	04F-6
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	Closed	04F-7
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	Closed	04F-8

INTERIOR, DEPARTMENT OF

Noxious Weed Fire Plan	Agriculture, Department of	15.999	N/D	Closed	02F-1
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N/D = The amount of questioned costs for this finding is not easily determinable.

**STATE OF IDAHO
SINGLE AUDIT REPORT
PRIOR FEDERAL FINDINGS AND QUESTIONED COSTS
PRIOR TO THE FISCAL YEAR ENDED JUNE 30, 2005**

**Issue Number
CFDA Title/Number
Federal Agency
Questioned Costs**

Finding and Noncompliance Issue

FISCAL YEAR 2002

AGRICULTURE, DEPARTMENT OF

02F-1

Forest Service Weed Grant and
Noxious Weed Fire Plan
10.664 and 15.999
U.S. Department of Agriculture and
U.S. Department of the Interior
Questioned Costs: Not Determinable

Federal rules require that state agencies monitor subrecipients to ensure that federal money is spent in accordance with applicable laws and regulations. The Department's monitoring of grants to cooperative weed management areas (CWMA) was inadequate and needed to be improved.

1. Weed management area audit findings were not always resolved. For example, the Department was unable to complete an audit because the accounting system was not adequate and inconsistencies were found in two management areas where erroneous costs had been coded to the weed program. As a result, the Department could not determine whether \$22,700 provided to these management areas was properly expended.
2. The Department did not ensure that the time elapsing between receipt and disbursement of federal funds was kept to a minimum as required by federal cash management regulations. For example, 18 of 29 management areas that received grant advances of \$5,000 to \$135,000 near the beginning of the 2002 grant period, requested permission to carryover part of the 2002 cash advance to the 2003 grant period. In one instance, a management area held an advance of \$25,000 (the full grant award) and requested that the full amount be carried into the next year's grant period.

We recommended that the Department monitor and disburse federal funds to management areas, resolve management area audit findings, and ensure compliance with federal regulations.

Current Status: **CLOSED**

The Department has established procedures to monitor cash disbursements to CWMA's and to ensure reasonable compliance with cash management regulations. Financial and program reviews are performed on a rotating basis, with about one-third of the CWMA's reviewed each year. Also, other federal requirements and audit issues are monitored and problems resolved.

FISCAL YEAR 2003

HEALTH AND WELFARE, DEPARTMENT OF

03F-3

State Admin. Match/Food Stamp Program
10.561
Department of Agriculture
Questioned Costs: Not Determinable

Federal regulations require states to determine eligibility for food stamps in 30 days or less, and limit the number of errors in determining eligibility. The percentage of applications not processed within 30 days increased from 10% to 13% during fiscal year 2003. The State's payment error rate was 15.42% as of July 2003. This is more than twice the 6.6% maximum acceptable payment error rate, as set by the federal grantor.

We recommended that the Department establish a plan for a long-term solution to reduce the food stamp error rate and avoid potential sanctions by the federal grantor. This could include reviewing current staff resources, reassigning existing resources, evaluating the cost-effectiveness of contracted staff, improving technology, additional training, and ongoing monitoring.

Current Status: **CLOSED**

The average error rate for the first seven months of federal fiscal year 2005 (October through April) was below 6%. The error rate increased from May through August 2005, and brought the cumulative average error rate to 7.8%, which is predicted to be above the national average and again raises the potential for a financial sanction by the federal grantor. However, new eligibility rules, implemented in October 2005, are anticipated to reduce the error rate in federal fiscal year 2006. New eligibility positions provided by the legislature will allow the Department to implement business changes and reestablish the Quality Assurance Unit to help improve the error rate.

The Department will continue to evaluate the cause of the errors and identify enhancements or other alternatives to reduce them.

FISCAL YEAR 2004

HEALTH AND WELFARE, DEPARTMENT OF

04F-1

Temporary Assistance to Needy Families (TANF)
93.558

Department of Health and Human Services

Questioned Costs: \$1,831,578

Federal funding under the TANF program is available for a variety of services to clients, if certain eligibility criteria are met. These criteria establish income guidelines and job search and work requirements the client must agree to as conditions for receiving assistance.

Federal regulation (45 CFR 233.145 (c)) prohibits the use of TANF funds for medical services for any type of "remedial care provided by an institution to any individual as an inpatient." In addition, the Department's federally approved State Plan and the associated administrative rules (IDAPA 16.03.08.376) prohibit the use of TANF funds for any type of child care.

An analysis of costs charged to the TANF Grant during fiscal year 2004 disclosed the following:

1. Inpatient services in the amount of \$358,000 were incorrectly charged to the TANF program. The Department used TANF funds to provide services to children in group residential and mental health treatment facilities. These inpatient services included medical services, based on reviews of vendor invoices, that provided diagnosis and other information. These costs are unallowable to the TANF Grant, even if a portion of the costs are associated with room and board.
2. Child care costs of nearly \$1.5 million were charged to the TANF program in error. Near the end of federal fiscal year 2003, the Department determined that expenditures in the child care program would exceed available funding. As such, child care costs of \$1,473,578 processed through the Idaho Child Care

Program (ICCP) automated system during August and September 2003 were redirected to the TANF Grant. This was done by adjusting the accounting system coding and did not involve any client-level determination or other processes to document eligibility. As a result, nearly \$1.5 million of the TANF funds were used improperly, which could result in financial sanctions or refund to the federal grantor.

We recommended that the Department comply with federal regulations by not charging medical services or child care costs to the TANF Grant. Program staff should be notified that residential treatment placements that include any medical services are not allowable costs to the TANF program.

We also recommended that the Department contact the federal grantor to resolve the questioned costs and potential refund of federal funds.

Current Status: **OPEN**

Inpatient Treatment Costs – The Department is awaiting a final determination from the federal grantors as to whether inpatient costs and child care costs were made in accordance with federal rules and the State Plan.

Child Care Costs – In December 2005, the federal grantor reviewed the audit finding, and the Department anticipates receiving a written determination regarding questioned costs in the near future. The grantor also provided State Plan guidance to clarify use of TANF funds for child care. The State updated the TANF plan accordingly. The Division of Welfare and the Division of Management Services developed a better method for paying qualified child care services from TANF funds and prevent future questions.

04F-2

Child Support Enforcement

93.563

Department of Health and Human Services

Questioned Costs: Not determinable

Federal regulation (45 CFR 303.6) requires the Department's child support enforcement program to take "any appropriate enforcement action" necessary to pursue and collect court-ordered amounts from non-custodial parents. A variety of methods and processes have been established by the Department to collect funds, including wage withholding, income tax refund offsets, and property liens.

One enforcement area not developed is pursuing the estates of deceased non-custodial parents. During fiscal year 2004, more than 230 cases were closed because the non-custodial parent died, but no efforts were taken to pursue the estate. In many cases, existing liens were released and efforts to collect from other sources were halted. We estimate that more than \$1 million in court-ordered debts were written off, including more than \$150,000 in debts owed to the State.

The child support procedures manual does not include any procedures for identifying or pursuing the estates of deceased non-custodial parents. Caseworkers generally determine that a non-custodial parent has died by reviewing the local newspaper obituaries or from information provided by individuals involved in the case. Data from Vital Statistics and the

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2005**

Social Security Administration is available but may take several months after the date of death before it is provided to the caseworker.

The Department currently has an estate recovery program in place for the Medicaid program, which could be used to pursue the estates of deceased non-custodial parents.

We recommended that the Department develop procedures for pursuing child support debts from the estates of deceased non-custodial parents through probate or other means. The Department should consider combining these efforts with the existing estate and probate recovery activities in the Medicaid program.

Current Status: **OPEN**

The Department is pursuing changes to its policy and seeking additional staffing to resolve this issue. The Division of Welfare and Medicaid are currently evaluating how best to coordinate estate and recovery activities.

04F-3

Child Support Enforcement

93.563

Department of Health and Human Services

Questioned Costs: Not determinable

Federal regulation (45 CFR 303.7) requires the Department to provide child support services within specific time frames when working with interstate cases. The Department must respond to inquiries from other states within ten working days of receiving the request and must refer cases needing assistance from other states within 20 calendar days. As of June 2004, the Department had nearly 20,000 cases involving other states.

A sample of 30 interstate cases showed that 23 (77%) were not referred or responded to within the required time frames. In three cases, it took over a year to perform the required services. Several case files showed the delay was the result of staff waiting to obtain information from the client. Other cases had no evidence that efforts were taken to respond to or refer the case, as required. These delays are generally the result of large caseloads, the low priority placed on interstate cases, and misunderstanding of time frames for providing services.

We recommended that the Department develop a strategy to provide services to interstate child support cases within the required time frames. This strategy should include training that reinforces the time frame requirements for interstate cases, and methods to reduce caseloads, such as reallocating or seeking additional resources and staffing.

Current Status: **CLOSED**

In April 2005, the legislature granted authority to fill 15 new child support positions, over a one-year period. The Division of Welfare has filled 12 positions and will fill the remaining 3 positions in January 2006, in accordance with the hiring plan. These additional positions will allow the Department to make improvements in the processes and realign the workload in the statewide redesigned Child Support Enhanced Case Management System.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2005**

04F-4

Children's Health Insurance Program (CHIP)

93.767

Department of Health and Human Services

Questioned Costs: \$5 million

(federal share = \$4 million)

The fiscal year 2001 audit report disclosed that 25% of children enrolled in CHIP did not meet all eligibility requirements. The fiscal year 2003 audit report followed up on this issue and disclosed that errors continued to exist at nearly the same rate. Efforts were taken by the Department to modify the EPICS automated eligibility system and perform case reviews, resulting in a reduction in the number of clients enrolled in CHIP from 12,106 at June 2002 to 10,704 at June 2003. Total clients enrolled as of June 2004 were 12,046.

The current audit shows that errors in determining eligibility continue to exist. A test of 30 randomly selected clients enrolled during June 2004 showed that 10 (33%) were not eligible for CHIP. Most of the errors were the result of miscounting income or resources, with some cases containing more than one error, such as excess income and having private insurance in force at the time of application.

A comparison of all 12,046 clients enrolled in CHIP in June 2004, with client health insurance coverage known by the Medicaid AIM system, showed that 1,239 (10.3%) had some form of health insurance coverage in force during the month. In nearly all cases, insurance data existed at the time of application or at the annual redetermination date but was not considered in determining eligibility.

Most errors are the result of increasing case loads, declines in resources and staffing, and the use of outdated automated systems. Although the number of clients served from month to month appears to have leveled off, this comparison does not reveal the actual volume of work performed.

Additionally, there are no system edits in either the EPICS eligibility or Medicaid claim payment systems to identify CHIP clients who have health insurance resources. Policies are not in place to direct staff to search for insurance coverage in the Medicaid system at the time of application or during the annual redetermination.

Proper eligibility determination is crucial in providing CHIP benefits to only those in need. These errors could result in the repayment of more than \$4 million to the federal grantor for the federal share of CHIP benefits provided to ineligible clients.

We again recommended that the Department review case files and remove ineligible clients from CHIP. Additional resources and renewed efforts are also needed to develop new automated systems and processes to limit the opportunity for recurring eligibility errors.

We also recommended that the Department negotiate a resolution with the federal grantor concerning the potential refund for the cost of providing services to ineligible clients.

Current Status: **OPEN**

The Division of Welfare has filled 26 newly approved positions and will hire 9 more positions in January 2006, in accordance with the plan approved by the legislature. Of the 26 positions hired, 11 were allocated to create the Family Medicaid Consolidated Unit.

Pending the outcome of an evaluation period currently underway, the Family Medicaid Consolidated Unit may eventually handle all "Medicaid only" applications, redeterminations, and eligibility for the entire State. During this pilot period, accuracy and time lines will be evaluated. A determination will then be made regarding movement of other cases into the unit.

Improvements to the automated system (EPICS) were made in May 2005, which allow easy identification of individuals who are approved for CHIP, by who appears to be Title XIX eligible. Alerts are generated that allow staff to make corrections quickly.

The questioned cost amount has not yet been resolved with the federal grantor.

04F-5

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Federal regulation (42 CFR 433.138) requires the Department to take reasonable measures to identify third parties who are liable to pay for services furnished by the Medicaid program. A liable third party is defined as "any individual, entity or program that is or may be liable to pay all or part of the expenditures for medical assistance" provided by the Medicaid program.

The Department relies primarily on the efforts of a contractor hired to perform these activities. The contractor's primary responsibility is to identify clients with health insurance coverage and bill the insurance for the medical costs paid by the Medicaid program. The contractor is paid a 10% commission based on the amounts collected. Our analysis of the contractor's efforts and activities disclosed several contract requirements that were not performed, as well as essential reports and other documentation necessary to monitor and evaluate the contractor's performance that were not prepared or readily available. Department staff was apparently unaware of the issues outlined above, because appropriate monitoring requirements were either not completed as required by the contract, or were not established.

We recommended that the Department immediately strengthen the contract performance requirements and monitoring efforts to improve the results of the third-party insurance recovery efforts. These efforts should include developing processes to confirm that insurance resources are identified and recorded promptly, ensuring that all recoverable costs are pursued from the identified liable resources, and confirming that commissions paid to the contractor are based on collections resulting from the contractor's efforts.

We also recommended that the Department evaluate all collections reported by the contractor since July 2002, in order to identify and recover any unearned fees.

Current Status: **CLOSED**

The Department had the existing contract reviewed by the State Attorney General's Office, which concluded the activities in question were within the scope of the contract. However, the practice of issuing amnesty letters had been suspended for the remainder of the existing contract, and the RFP for a new contract will clarify this activity.

A new process was implemented in September 2005 to ensure that all recoverable costs are identified and pursued, and a review for unearned commission is in process by the Department's Internal Audit group. Internal Audit will review its findings with Medicaid and Legislative Audit staff. The current contract was amended to clarify the write-off criteria on June 28, 2005. The contractor applied these criteria, and the accounts receivable balance was written down as of June 30, 2005.

04F-6

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Federal regulation (42 CFR 433.138) requires the Department to seek reimbursement of Medicaid costs from all liable third parties. A liable third party is defined by federal regulation (42 CFR 433.136) as "any individual, entity or program that is or may be liable to pay all or part of the expenditures" for medical assistance furnished under the Medicaid program.

We recommended, in the fiscal year 2002 legislative audit, that the Department take steps to develop and implement a strategy to pursue and recover Medicaid costs from absent parents. However, as of January 2005, no efforts have been made to pursue absent parents for ongoing Medicaid costs.

The regulations specify the actions to be taken, and require the Department to identify the paternity of all children receiving assistance and obtain data about the absent parent and their employer in order to recover the costs of services provided. Efforts to identify paternity and employer data can be coordinated with the child support enforcement program. However, the regulations clearly establish the Medicaid program's responsibility to identify all absent parents and other liable third parties, since many clients are not served by the child support program.

Administrative rules (IDAPA 16.03.09.031) further reinforce this issue by directing the Department to "recover payments for medical expenses from any liable third party, including a parent."

The legal responsibility and location of absent parents are known for most of the 25,000 cases that have an existing court order for child support. If only 10% of these cases were pursued, the Department could recover more than \$6 million in Medicaid costs and possibly reduce future costs by encouraging absent parents to insure their children rather than risk potentially large recoveries. The effort to pursue absent parents may require additional resources that could be offset by the recoveries generated by this effort.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2005**

We recommended that the Department develop a strategy to pursue and recover Medicaid costs from absent parents. This strategy should include methods for identifying all absent parents and opportunities to incorporate the Department's existing efforts and information in pursuing these individuals.

Current Status: **OPEN**

The Department consulted with federal officials about the authority to designate an absent parent as a liable third-party resource. The Department is still waiting to receive guidance from the Center of Medicare and Medicaid Services (MBS) on this issue.

04F-7

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Federal regulation (42 CFR 435.916) requires the Department to redetermine the eligibility of Medicaid recipients at least every 12 months. Procedures must be designed to ensure that recipients report any changes and that the Department act promptly to redetermine eligibility based on the new information. The Department must also process new applications within 45 days as required by administrative rules (IDAPA 16.03.01.103).

A random sample of 35 clients eligible for Medicaid benefits during June 2004 was made to determine the timing and basis used to determine eligibility. Four clients (11%) had not had their eligibility redetermined within the last 12 months.

Applications are also not processed within 45 days as required. An analysis of pending applications as of February 2005 showed that 228 were submitted more than 45 days earlier.

The delays in processing applications and redetermining eligibility are a result of the growth in the number of clients while resources have declined. The number of clients served has grown by nearly 10% annually over the past three years. As a result, applications and redeterminations are not always processed within the time frames required.

We recommended that the Department develop a strategy to comply with the time frames and requirements for processing applications and redetermining eligibility for Medicaid. This strategy should include establishing a quality control review process to identify training and process issues and limitations in existing automation.

The Department should also consider seeking additional resources and renewing its efforts to modify or develop automated processes to prevent or limit the opportunity for recurring eligibility errors.

Current Status: **CLOSED**

In April 2005, the legislature granted the Department authority to fill 35 new eligibility positions over a one-year period. The Division of Welfare has filled 26 positions to date, and will hire the remaining 9 positions in January 2006.

04F-8

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Of the 26 positions hired, 15 were allocated to improve general eligibility determinations and to reestablish the Quality Review Team to address the issues in this finding. In addition, the Department developed a decision unit to fund an improved eligibility system, which will be included in the fiscal year 2007 budget request.

Federal regulations require the Department to provide Medicaid clients with appropriate access to medical services. This access includes providing transportation services to receive both emergency and non-emergency medical care. These regulations authorize the Department to establish administrative procedures, rules, and policies for providing transportation services that meet these requirements.

The cost for providing medical transportation services continues to grow, with increases in the number of clients, reimbursement rates, and units of service provided. Fiscal year 2004 totaled \$12.7 million.

Non-emergency transportation providers are required under administrative rules (IDAPA 16.03.09.151) to maintain specific records, such as detailed travel logs, evidence that drivers are properly licensed, and that vehicles are registered and insured. However, these rules are not enforced and potential overpayments and other irregularities continue to exist. The Department has not requested any transportation provider to submit the required records, nor visited any provider locations to review these records.

Of seven providers reviewed, all lacked some level of information, such as complete logs, current vehicle registration, proof of insurance, or valid drivers' licenses. There were considerable inconsistencies on the detailed logs submitted when compared to claims paid, such as duplicate claims, trips for non-medical purposes, and no medical services provided on the day of the trip. Also of concern, is the lack of background checks and vehicle safety inspections as a condition of providing services to Medicaid clients.

We recommended that the Department enforce existing rules for non-emergency transportation providers. At a minimum, the Department should require that each provider submit copies of all drivers' licenses, vehicle registrations, and proof of insurance as part of the annual provider agreement renewal process.

We also recommended that the Department consider amending existing rules to require transportation providers to supply documentation annually, showing background checks for all staff and safety inspections of all vehicles.

Current Status: **CLOSED**

The Department increased the number of staff allocated to transportation management and continues to conduct reviews of transportation claims. The Department plans to address the criminal history aspects of the finding during the 2007 legislative session.

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS
FISCAL YEAR 2005**

The Idaho Legislative Services Office, Legislative Audits, released 39 reports during the fiscal year 2005 audit cycle. In addition to federal findings and questioned costs, these reports contained 21 findings and recommendations to improve State financial operations. None of these findings are considered material as defined by the American Institute of Certified Public Accountants.

ARTS, IDAHO COMMISSION ON THE

05S-1 The Commission is not in compliance with federal grant cash management requirements.

BEAN COMMISSION, IDAHO

05S-2 Some of the Commission's accounting and internal controls are inadequate.

BUILDING SAFETY, DIVISION OF

05S-3 The Division did not follow State purchasing rules and good project development procedures when it enhanced its computerized receipting system.

CORRECTIONAL INDUSTRIES

05S-4 Correctional Industries has no policy and, in some instances, no support for allowances and other reserves.

CORRECTION, DEPARTMENT OF

05S-5 Parole and probation cost-of-supervision receivables are not sufficiently monitored.

05S-6 The accounting for inmate special projects is not adequate.

05S-7 The Department's purchasing processes are inadequate to ensure that all purchases are appropriate.

05S-8 Accounting for travel is not in compliance with Idaho law.

ENVIRONMENTAL QUALITY, DEPARTMENT OF

05S-9 The Department's use of temporary employees may not be in compliance with laws, rules, and regulations.

05S-10 Billing and accounting errors cause some information to be incomplete and inaccurate.

ENVIRONMENTAL QUALITY, DEPARTMENT OF – CLEAN WATER STATE REVOLVING FUND

05S-11 The accounting has errors and is not completed in a timely manner.

05S-12 The accounting structure is unnecessarily cumbersome and inefficient.

05S-13 Documentation supporting transactions is not always adequate.

ENVIRONMENTAL QUALITY, DEPARTMENT OF – DRINKING WATER STATE REVOLVING FUND

05S-14 The accounting structure is unnecessarily cumbersome and inefficient.

05S-15 The accounting has errors and is not completed in a timely manner.

HEALTH AND WELFARE, DEPARTMENT OF

05S-16 Fees for mental health services are based on poverty rates that are more than 13 years old.

05S-17 Administrative rules for recovering certain types of Medicaid costs from parents are not enforced.

INDEPENDENT LIVING COUNCIL, IDAHO STATE

05S-18 The Council's internal control policies are not consistently followed and, in some cases, need strengthening.

INDUSTRIAL COMMISSION, IDAHO

05S-19 The Industrial Administration Fund averaged \$5.9 million in excess cash each month during fiscal year 2005.

VOCATIONAL REHABILITATION, DIVISION OF

05S-20 The Community Supported Employment Program and related services are still not coordinated or monitored.

WATER RESOURCES, DEPARTMENT OF

05S-21 Controls over the Department's energy loan program are not adequate.

**STATE OF IDAHO
SINGLE AUDIT REPORT
STATE FINDINGS AND RECOMMENDATIONS
FISCAL YEAR 2005**

ARTS, IDAHO COMMISSION ON THE

FINDING 05S-1

The Commission is not in compliance with federal grant cash management requirements.

The Commission receives various competitive and formula-based grants from the National Endowment for the Arts (NEA). These grants are used to enhance arts education throughout the State. Cash advances from the grants are not being expended in accordance with NEA cash management requirements. The NEA requirements state "requests for payment must reflect expenses already incurred and/or to be incurred within 30 days from the date the authorizing official . . . signs the payment request form. Funds must be disbursed immediately upon receipt. If you cannot do so, you must return the funds to the Arts Endowment."

On several occasions, the Commission took up to six months to spend a federal cash advance. For example:

1. In October 2002, the Commission withdrew \$100,000 in NEA grant funds. These funds were not completely spent until January 2003. Prior to spending this \$100,000, the Commission withdrew another \$50,000 in NEA grant funds.
2. In July 2003, the Commission withdrew \$280,000 in NEA grant funds. These funds were not completely spent until December 2003. During this same time period, the Commission withdrew another \$140,000 in NEA grant funds.

Commission staff does not have adequate training nor understanding of the cash management requirements for the NEA grants. Noncompliance with NEA cash management restrictions may result in the NEA withholding grant payments, terminating grants, or requiring interest reimbursements.

RECOMMENDATION 05S-1

We recommend that Commission's staff receive additional grant management training and in the future, comply with all grant requirements.

CORRECTIVE ACTION PLAN

The agency grant management process and procedures were set up by the Commission some years ago, based on State fiscal procedures and have made annual procedural adjustments as directed by legislative auditors and the State Controller's Office.

It is challenging to find any training focused on federal grant and cash management. In our research, we have been unable to locate such training and according to Charlie Blanton, AICPA, most professional training for government accountants do not offer courses specifically dedicated to grants management. While useful at the audit level, these classes do not offer training needed in the day-to-day management of the grant. The web sources provided by the legislative auditor are restricted to membership.

In speaking with the National Endowment on the Arts, they, too, do not offer grants management training.

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With the assistance of the legislative auditors, we have located two CDs that will provide training on audit readiness and federal cash management, and we are contacting other State agencies receiving federal grants and will work with them on possible one-on-one training.

The Idaho Commission on the Arts takes seriously our role as stewards of limited public dollars available for support of the arts in Idaho. We are grateful for the professional guidance delineated in the findings and look forward to an audit free of any findings following our next review.

CONTACT PERSON

Dan Harpole, Executive Director
Idaho Commission on the Arts
208-334-2119

BEAN COMMISSION, IDAHO

FINDING 05S-2

Some of the Commission's accounting and internal controls are inadequate.

The Commission has five separate bank accounts. Two of these are simply membership accounts with minimal deposits; the others include a general operations checking account and two checking accounts for grants.

The Commission should use its accounting system to account for separate activities instead of establishing separate checking accounts. Using the accounting system is more efficient and provides more accurate financial information. For example, when paying an invoice relating to two separate activities, the Commission pays the invoice from the general operations checking account. The Commission does not transfer money from one checking account to another checking account to properly record the expenditures against the second activity. Other areas the Commission can improve are:

1. The Commission withdrew about \$40 from a bank account to purchase office supplies; however, it was unable to supply documentation to support the purchases or show approval for the purchases by the Commissioners.
2. The Commission pays the director on about the 20th of the month; that is 10 days before the director has actually earned the full month's salary. Paying employees in advance is not a good business practice and subjects the Commission to unnecessary risk, should the employee terminate immediately after receiving the advance payment.
3. The Commission recorded staff budgeted and actual travel expenditures as \$0 on one budget report and as \$450 and \$560, respectively, on another budget report. The amounts should be the same on both budget reports.
4. The Commission issues some checks with only one signature of a Commission officer instead of two signatures as required by Idaho Code, Section 22-2919.

Proper utilization of the accounting system and good controls will help ensure accurate, complete financial information and compliance with laws and regulations, as well as ensuring that funds are not misappropriated.

RECOMMENDATION 05S-2

We recommend that the Commission eliminate all but one checking account and use the accounting system to account for its activities.

We also recommend that the Commission:

- 1. Retain supporting documentation for expenditures.**
- 2. Pay salaries after they have been earned.**
- 3. Review reports to ensure they are correct.**
- 4. Sign checks in accordance with Idaho Code, Section 22-2919.**

CORRECTIVE ACTION PLAN

The Commission agrees with the finding and has already implemented many of the recommendations including consolidating checking accounts to a single checking account, obtaining dual signatures on all checks, and improving the documentation review system. The Commission also notes that no fraudulent activities or material errors were identified.

CONTACT PERSON

Diana L. Caldwell, Administrator
Idaho Bean Commission
208-334-3520

BUILDING SAFETY, DIVISION OF

FINDING 05S-3

The Division did not follow State purchasing rules and good project development procedures when it enhanced its computerized receipting system.

State purchasing rules require that information technology (IT) services exceeding \$50,000, or that are expected to exceed one year in length, must be acquired by formal bid procedures. The Division entered into a \$115,000 contract to enhance its computerized receipting system without obtaining bids. The contract did not cover all the work completed; did not specify the expected deliverables; and did not include other items, such as a retainage clause and penalties for lack of specific performance. Good contracting procedures protect the Division and help ensure that the work is completed in a timely manner.

In addition to not using good contracting procedures, the Division did not use good project development procedures. To improve the implementation of future IT projects, the Division should:

1. Document project specifications. Project specifications not only help communicate the Division's needs and desires to potential contractors, but also helps identify the expected deliverables.
2. Develop a work plan. A work plan helps guide, manage, and track the project and includes a chronological order for the tasks to be completed. The work plan should include, but not be limited to, processes for managing project changes, troubleshooting issues, testing the system, and formal training.

Better contracting procedures and project management may have eliminated many issues and system errors. The additional work of learning the new system, and investigating and correcting system errors, caused some employees to use the old receipting system instead of using

and testing the new system. As a result, when the Division finally stopped using the old system and relied fully on the new system, it had not been adequately tested and system errors were encountered.

It is difficult to determine specific causes for these problems; however, the Division may have placed too much reliance on the contract programmer because it had used the programmer on a previous project. Also, staff may not have had adequate time to develop and use good contract and project management procedures, or to adequately test the new system and complete their day-to-day responsibilities.

RECOMMENDATION 05S-3

We recommend that, before proceeding with new information technology projects, the Division:

- 1. Document project specifications once it has identified an IT project. The project specifications should support the request for proposal and, therefore, allow consultants to understand the project and make a bid.**
- 2. Ensure that it complies with State contracting rules and that contracts contain provisions for all deliverables (commonly called a Statement of Work), as well as retainage clauses and penalty clauses for lack of specific performance.**
- 3. Develop a project work plan that includes processes for troubleshooting, managing project changes, and formal training.**

CORRECTIVE ACTION PLAN

Since the Audit, the Division has been working with the Division of Purchasing to ensure any enhancements for our computerized receipting system are completed in accordance with State purchasing laws and rules.

CONTACT PERSON

John McAllister, Administrator
Division of Building Safety
208-334-3950

CORRECTIONAL INDUSTRIES

FINDING 05S-4

Correctional Industries has no policy and, in some instances, no support for allowances and other reserves.

Correctional Industries maintains an allowance for doubtful accounts receivable, an allowance for obsolete materials and finished goods inventory, and a warranty and showroom reserve. These allowances are estimates based on past activities and are recorded to properly reflect all expenses that result from Correctional Industries' operations. For example, warranty expense usually is a result of sales and would be recorded as products are sold.

The warranty and showroom reserve amounts that Correctional Industries reported at the end of fiscal years 2004 and 2005 had not changed, although sales had increased significantly during fiscal year 2005. Instead, Correctional Industries recorded warranty expense as the actual costs were incurred. As a result, warranty expenses may be overstated, because warranty expense was recorded when the reserve was established

and then again when the costs were incurred. Other allowances, such as the allowance for doubtful accounts receivable, could not be recalculated or explained.

Correctional Industries agrees that some of the reserve accounts need to be reviewed and that some may not be needed or can be significantly reduced because of recent quality control procedures it has implemented.

Proper accounting for allowances and reserves would help ensure expenses are recorded against the revenue the expenses generated. This finding and recommendation was included as part of the fiscal year 2002 and 2003 audit report. We believe Correctional Industries had not yet fully addressed this prior finding due to staff turnover and shortages.

RECOMMENDATION 05S-4

We recommend that Correctional Industries review its accounting for allowances and reserves and develop a policy for determining all allowances and reserves. The policy should explain when the allowances will be increased, and decreased, and the basis for these increases and decreases. Compliance with its policy should be regularly monitored.

CORRECTIVE ACTION PLAN

Correctional Industries will review the history of the reserve accounts for doubtful accounts, warranty, and obsolete inventory. A policy will be developed to determine the requirements for the accounts, along with the appropriate reserve amounts. The policy will explain when balances should be increased or decreased and established documentation requirements.

CONTACT PERSON

William Oldham, General Manager
Correctional Industries
208-658-2193

CORRECTION, DEPARTMENT OF

FINDING 05S-5

Parole and probation cost-of-supervision (COS) receivables are not sufficiently monitored.

The Board of Correction, in accordance with the Idaho Code, requires parolees and probationers to pay up to \$40 a month to defray some of the costs of their supervision. Each offender account is coded as "normal," meaning the offender is working and has the ability to pay, or is coded as "unable to pay" for various reasons. According to the Offender Management System aging reports, the dollar amount of normal COS receivables four or more months past due was \$410,000 as of May 5, 2005. The following provides some detail about these receivables.

1. Some districts have several offenders with balances exceeding \$1,000. For example, one offender owes about \$1,900 and has not made a payment since January, 2001, and another offender owing \$2,215 has not made a payment since August 2000.
2. Some individual parole and probation officers have large caseload receivables. One officer has receivables exceeding \$12,000; another has receivables of \$18,000.

This may be due to some parole and probation officers simply not managing their offender collections. Perhaps some accounts that are coded as "normal" should be coded as "unable to pay." Also, members of the staff told us that some staff members were unaware that there were aging reports that could be used to identify and monitor past-due receivables by district, parole and probation officer, collection code, or other criteria.

In addition to not complying with Department policies, failure to collect receivables may result in reduced revenue to the Department.

RECOMMENDATION 05S-5

We recommend that the Department utilize its Offender Management System aging reports and identify, collect, and resolve outstanding balances.

CORRECTIVE ACTION PLAN

We currently have 162 officers managing 11,104 cases in the State of Idaho, or an average of 69 per officer.

We agree with the audit finding. Increasing, heavy caseloads, with limited FTE's [full time employees], make it difficult for officers to find the hours required for handling collections. We are currently at 84.8% collection rate on "current" fees. The difficulty comes in collecting the aged balances where we are at a 33.1% collection rate.

We have created a Cost of Supervision team in the Fiscal Office and are currently implementing a new program. The receipting of all COS funds will be done by this team. This should free up some limited time for the officers in the field. Additionally the new team will help facilitate the officers more proactively in the entire collection process when the new program is fully implemented.

FINDING 05S-6

The accounting for inmate special projects is not adequate.

The Department contracts with nonprofit and governmental entities to use inmate labor for work projects such as roadside trash pickup, recreational development, and soil conservation. Annual revenue from these projects is about \$3.5 million a year.

In the prior audit report, we talked about an inmate labor tracking system that the Department developed to collect and maintain information for projects. The Department has decided to replace this system and, in recent months, has worked hard to develop a new project accounting system. However, this system will not be fully implemented for some time. As such, some issues discussed in the prior audit report are still unresolved. Examples are:

1. Not all institutions are utilizing the inmate labor tracking system. One institution does not use the system at all and others only use certain features. For a short time period, billings from one institution not using the inmate labor tracking system directed customers to send payments to an address that the Department had vacated in 1998. Payments of \$114,562 and \$78,856 were sent to this old address.
2. The inmate labor tracking system does not generate useful management reports. For instance, the system does not generate

lists of all contracts and projects undertaken, all invoices prepared in a particular year, or open and closed projects.

3. Cost rates are used to justify fees charged to customers and to plan work projects. However, these cost rates are not adequately supported. Although the Department maintains lists of small tools and equipment used on inmate projects, these lists do not show the cost or expected life span. The Department cannot prepare cost rates without this information. Also, cost rates vary from one facility to another.

Based on our discussions with staff members, we believe employee turnover is the primary reason problems noted in the prior audit report were not addressed sooner.

As a result of the inmate labor tracking system's inadequacies, the Department does not have the information needed to sufficiently monitor costs, prepare accurate client billings, negotiate fee rates, manage work projects, or comply with Department directives. An improved system would provide better accounting information that may help alleviate disagreements with clients about billings, help ensure the timely payment of receivables, and improve the overall operating efficiency.

RECOMMENDATION 05S-6

We recommend that the Department continue its development and implementation of a replacement project accounting system. We also recommend that the Department:

- 1. Require all institutions to utilize the new project accounting system.**
- 2. Ensure the new system can generate useful management reports, and that they are used to monitor projects.**
- 3. Establish a standard set of cost rates for equipment used. Documentation should be retained to support the cost rates, and the rates should be periodically reviewed.**

CORRECTIVE ACTION PLAN

We agree with the finding. The new system, currently in the implementation stage, will meet Items 1 and 2 as recommended, upon roll out. The new system will also accurately capture all the data elements needed to implement a standard cost rate calculation for equipment. This item will be implemented when enough data is accumulated to do the calculation.

FINDING 05S-7

The Department's purchasing processes are inadequate to ensure that all purchases are appropriate.

The Department has assigned approximately 450 purchasing cards (P-cards) to employees. P-cards are State credit cards used by Department employees to transact Department business, and to pay for travel-related expenses. Although the Department has made some improvements in accounting for P-card purchases, further improvements can be made. The following explains:

1. A number of transactions have gone more than six months without being verified and approved. Verification and approval help ensure that the transactions are for valid State business, and enable P-card expenditures to be charged to the proper Department function.
2. A former Department employee is still shown as active in the P-card system and has approval privileges. These privileges could enable the former employee to approve transactions for payment. Furthermore, current employees could use the former employee's log-in to approve transactions for payment.
3. The Department does not have cardholder agreements on file for all cardholders. These agreements communicate to the cardholder their responsibility with regard to P-card use. The agreement also assigns accountability for charges made on the P-card by the cardholder.
4. Some fiscal year 2004 P-card transactions were not properly documented. Purchases with inadequate documentation explaining why they were made and what they were for include \$74 in food purchases and \$102 in merchandise from a toy and hobby store.

Good accounting and documentation help communicate employee responsibility and ensure that funds are not misappropriated. Also, timely verification and approval of expenditures will help ensure supporting documentation is not lost and that expenditures are properly reported.

We believe the Department's staff turnover is the primary reason for not fully addressing all of the issues noted in the prior audit report.

RECOMMENDATION 05S-7

We recommend that the Department strengthen controls over P-card transactions by:

1. **Enforcing the requirements to verify and approve transactions in the P-card system in a timely manner.**
2. **Ensuring that only current P-card users have access to the Department's P-card system, and that all cards listed as active by the bank are issued to current employees only.**
3. **Ensuring that cardholder agreements are on file for all cardholders.**
4. **Ensuring that P-card purchases are documented by providing the receipt and an explanation of what the goods were used for.**

CORRECTIVE ACTION PLAN

1. All P-card charges were current and cleared by year end. We have implemented a new process for proactively monitoring the report off the P-card system to expedite the approval process.
2. Additional controls have been put in place to check the cardholders on the system. The system does not provide for an electronic method of verifying the users. It requires a manual process, which has been expanded, to regularly review for employees no longer employed by the Department of Correction, on a monthly basis.

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3. At the first of the calendar year, we updated our cardholder agreement and have reissued these to all department employees who have a card. We have changed our procedure to maintain these with the P-card administrator instead of trying to keep updated copies in employee files, in HR.
4. All cardholders have a current agreement on file.
5. New procedures for checking the descriptions were implemented to prevent this type of error from occurring. Only one of the items cited in the audit was without a documented description.

FINDING 05S-8

Accounting for travel is not in compliance with Idaho law.

The Department should ensure compliance with the Idaho Code and State travel regulations, account for travel costs in a timely manner, and ensure accurate accounting. The following explains:

1. Idaho Code, Section 67-2006 requires that travel vouchers be completed. Department employees do not always complete travel vouchers. When a traveler did prepare a travel voucher, it often did not match supporting receipts or did not contain all information such as travel authorization, mode and travel route, lodging, meal costs, and other miscellaneous information as required by travel regulations.
2. Accounting for travel is not always completed in a timely manner. For example, one employee did not submit travel documentation for one month after the travel ended, and only did so at the request of the fiscal staff. Another employee with multiple trips during July and August did not submit documentation until September.
3. Although employees are required to complete travel vouchers, in many instances, the Department's fiscal staff attempted to complete the necessary reconciliations to determine the amounts owed to or from employees. Obtaining documentation for travel expenditures and "piecing" the total trip cost and any over- or under-reimbursement due from or to the employee is burdensome to the fiscal staff. In some instances, the total trip costs were not reported and the amount reimbursed may have been incorrect.

In addition to complying with the Idaho Code, Section 67-2006, travel vouchers help ensure expenditures incurred are for valid Department business.

We could not determine why employees did not complete travel vouchers. However, the Department's fiscal officer stated it is difficult to get Department employees to complete travel vouchers.

RECOMMENDATION 05S-8

We recommend that the Department comply with the Idaho Code and improve accounting by:

1. Submitting signed and approved travel vouchers with supporting documentation in a timely manner.
2. Recording all travel costs on the travel voucher (including costs and advances paid by P-card).

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3. Monitoring travel expenditures to ensure they are valid Department expenditures and are in accordance with travel regulations.

CORRECTIVE ACTION PLAN

The Department's Fiscal Office has taken on the responsibility of completing a trip reconciliation of all expenditures, including ensuring that P-card transactions are correct, with proper receipts; that travel requests and vouchers are completed, in a timely manner; and that trips are reconciled, in total. This process has been implemented in the Fiscal Office. We are currently reviewing various travel vouchers from several other State agencies to adopt a best practice voucher and pursuing an electronic travel request and process with our IT organization. We are also analyzing processes to determine how to implement a change moving the reconciliation from the Fiscal Office to the field. This analysis will include the forms, procedure, and how to train and implement the process change to the 1500 people in the organization. Limited resources to make this change will impact the time line for making it. In the meantime, Fiscal will continue the audit process until the change can be implemented.

CONTACT PERSON

Tom Beauclair, Director
Idaho Department of Correction
208-658-2000

ENVIRONMENTAL QUALITY, DEPARTMENT OF

FINDING 05S-9

The Department's use of temporary employees may not be in compliance with laws, rules, and regulations.

Department staff stated that they do not have enough full-time positions to complete their work. As a result, the Department hires temporary employees for eight months of the year, and then pays a temporary employment agency to keep these same employees at the same job the remaining four months of the year.

Although we understand the Department's difficult position, using temporary employees in this manner increases the risk of a potential lawsuit in which employees may contend that they are actually full-time employees and, as such, should receive all the benefits of full-time employees. Additionally, using temporary employees in this manner may not be in accordance with State policies or Internal Revenue Service regulations relating to employer/employee status, or State administrative rules regarding proper use of consultants and persons employed under independent contracts. The Idaho Division of Human Resources' Deputy Attorney General agreed that this practice may not be in accordance with rules and regulations.

RECOMMENDATION 05S-9

We recommend that the Department seek assistance from the Division of Financial Management, the Division of Human Resources, and the State Controller's Office to resolve this issue.

CORRECTIVE ACTION PLAN

The Department will not employ temporary staff for periods longer than prescribed under the State's policy.

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FINDING 05S-10

Billing and accounting errors cause some information to be incomplete and inaccurate.

The Department's accounting is good considering the large amount of accounting required for its many different programs. We did not find many accounting errors, but some we did find, indicate internal controls in the permit billing system could be improved, as explained below:

1. The Department incorrectly provided a \$3,000 credit to a public water system. It issued the credit memo, believing that the water system had made 13 payments instead of 12 in the prior year. Although 13 payments were recorded, one was the result of an insufficiently funded check, so only 12 payments were made. In another instance, the Department incorrectly posted a payment to the wrong public water system account.
2. The Department did not collect air permit fees in compliance with administrative rules. For example, the Department did not charge \$10,000 for changes made to a tier II permit. Although administrative rules exempt fees for some changes, the changes made to this permit were not exempt.
3. The Department had not billed or collected \$10,000 for a permit issued approximately nine months earlier. A reconciliation of permit changes and issuances with billings may have found this error.

In some instances, the errors were simply mistakes. In other instances, the errors were caused by a lack of communication or a breakdown in procedures. Because of these errors, the Department has not properly collected revenue and may not be in compliance with rules and regulations.

RECOMMENDATION 05S-10

We recommend that the Department:

1. **Review postings to customer accounts to ensure they are correct.**
2. **Ensure that it complies with administrative laws regarding the issuance of air permits. If the Department believes the rules and fees are unnecessarily burdensome on the companies, we recommend that the Department initiate appropriate changes. We also recommend that the Department reconcile permit issuances and changes to billings, and bill the \$10,000 that it has not yet collected for the air permit.**

CORRECTIVE ACTION PLAN

1. The Department will review any invoice that has been changed from the original and document any decision. Credits will be issued, if deemed necessary.
2. The Department will seek to change the administrative rule regarding minor changes to permits.
3. The Department has billed, and has received the \$10,000 for the referenced air permit.

CONTACT PERSON

Toni Hardesty, Director
Idaho Department of Environmental Quality
208-373-0502

ENVIRONMENTAL QUALITY, DEPARTMENT OF – CLEAN WATER STATE REVOLVING FUND

FINDING 05S-11

The accounting for the Clean Water State Revolving Fund (CWSRF) has errors and is not completed in a timely manner.

In the prior audit, we noted several accounting errors, and financial statements that were not completed in a timely manner. Similar errors were noted during this audit, and again, the financial statements were not completed in a timely manner.

1. Net assets reported on the Statement of Net Assets (balance sheet) did not agree with net assets reported on the Statement of Revenues, Expenses, and Changes in Net Assets (income statement). These amounts should agree. However, they differed by \$12 million.
2. Cash transactions reported on the Statement of Cash Flows did not agree with the underlying amounts on the balance sheet and income statement. In order to reconcile the cash, loan receivables were decreased by \$102,000, and interest earned was decreased by \$54,000. The Department could not explain the errors or why these adjustments were necessary.
3. Some financial statement amounts could not be reconciled with supporting documentation. For example, loan interest received in the State accounting system (STARS) did not agree with loan interest received in the loan accounting system.
4. Loan disbursements in the amount of \$900,000 were incorrectly made from another fund instead of from the CWSRF. The Department was unaware of these incorrect disbursements.
5. At the request of the Department, an entity made a loan repayment that was \$10,000 less than shown on the loan repayment schedule. There was no documentation to support this request.
6. Interest was miscalculated, and there were incorrect allocations of borrower repayments between principal and interest.

These errors can lead to entities overpaying or underpaying loan amounts, incorrect management decisions, noncompliance with loan agreements, and misappropriation of assets.

We believe these errors are caused by one employee completing accounting transactions with little oversight or review. Also, the lack of a fully integrated and automated accounting system may contribute to these errors.

RECOMMENDATION 05S-11

We recommend that the Department:

1. **Ensure that more than one person is trained to complete accounting transactions.**
2. **Consider purchasing a new integrated accounting system.**
3. **Generate accounting reports in a timely manner.**
4. **Enhance internal controls by completing timely reconciliations and management reviews.**

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CORRECTIVE ACTION PLAN

The Department will:

1. Purchase a new loan processing program.
2. Ensure that additional staff is trained to do the Fund's accounting.
3. Generate accounting reports in a timely manner.
4. Complete timely reconciliations of transactions and use one fund detail for accounting.

FINDING 05S-12

The accounting structure is unnecessarily cumbersome and inefficient.

As reported in the previous audit, the Department uses three funds: one to record loan repayments; a second to record loan disbursements (this fund has a large negative cash balance); and a third to account for miscellaneous transactions, such as recording interest earnings. Accounting for all activities in one fund will allow for more timely and efficient reconciliations, and help ensure that all transactions are properly reported in accordance with governmental accounting standards.

Additionally, the Department unnecessarily uses separate program codes for different loan transactions types, causing more difficult accounting and reconciliations, weakening internal controls.

Staff reported that using multiple funds and program codes was a carryover from when the DEQ was part of the State Department of Health and Welfare. Staff agrees that one fund will suffice, and that the Department may have program codes that are not necessary for accurate and efficient accounting.

RECOMMENDATION 05S-12

We recommend that the Department eliminate unnecessary funds and program codes.

CORRECTIVE ACTION PLAN

The Department will consider eliminating certain funds and program codes.

FINDING 05S-13

Documentation supporting transactions is not always adequate.

The Department could not provide adequate documentation to support some transactions, which was also an issue in the prior audit. This lack of documentation places the Department at risk of a local entity contending that it did not agree to the transactions. Good documentation will protect employees from potential wrongdoing allegations and improve internal controls. Documentation could be improved in the following areas:

1. The Department re-amortized loans after some entities made prepayments. However, there were no addendums to the loan agreements or correspondence in the loan files to indicate that all parties agreed to the re-amortizations or that they were approved by management.
2. Loan repayment schedules are maintained separately from the loan agreements, and are not readily available to staff members. This may be a contributing factor to the Department having requested an entity pay an incorrect amount.

3. Unscheduled or early payments have been posted inconsistently, which may result in some entities paying more or less than others, and could also lead to misunderstandings and disagreements. Furthermore, the recording of payments is not always in accordance with the loan agreements.
4. In some instances, amounts recorded on loan receivable accounts did not agree with amounts reported on repayment schedules or loan closing documents. There was no documentation in the files to explain these differences.

RECOMMENDATION 05S-13

We recommend that the Department maintain adequate documentation for all decisions that affect loans or transactions related to loans. The loan files should include:

- 1. Documentation supporting loan re-amortizations. This documentation should include management's approval; the local entity's concurrence; and other documentation that the Department may consider necessary, such as correspondence memorandums or addendums to loan agreements.**
- 2. Documentation showing current loan repayment schedules, thus allowing all parties to understand what is due to the CWSRF for each outstanding loan.**
- 3. Documentation showing compliance with the loan agreement or Department policy for recording early or non-scheduled repayments, to help ensure consistent application of loan payments.**
- 4. Documentation explaining why the loan amount reported on the loan detail report does not agree with the loan amortization schedule.**

CORRECTIVE ACTION PLAN

The Department will document all loan decisions that affect the loans or transactions related to them. The files will include:

1. Justification and approvals for not accruing interest on loans.
2. Documentation that supports re-amortization of loans.
3. Documentation of loan analyses and decision making processes when considering refinancing of loans by local entities.
4. Explanations if there are variances in loan amounts reported.

CONTACT PERSON

Toni Hardesty, Director
Idaho Department of Environmental Quality
208-373-0502

ENVIRONMENTAL QUALITY, DEPARTMENT OF – DRINKING WATER STATE REVOLVING FUND

FINDING 05S-14

The accounting structure for the Drinking Water State Revolving Fund (DWSRF) is unnecessarily cumbersome and inefficient.

The prior audit report noted that the Department used three separate funds to account for the DWSRF's activities when one would suffice. The Department still uses three funds: one fund records loan repayments; a second fund, which has a large negative cash balance, records loan disbursements; and a third fund accounts for miscellaneous transactions, such as recording interest earnings. Accounting for all DWSRF activities in one fund will allow for easier and more efficient reconciliations and help ensure that all transactions are properly reported in accordance with governmental accounting standards.

Also, the Department unnecessarily uses separate program codes for different loan transactions types, leading to loans having multiple program codes, making reconciliations and accounting more difficult, and ultimately weakening internal controls.

We were told that the using multiple funds and program codes was a carryover from when the Department of Environmental Quality was part of the Department of Health and Welfare. Staff agrees that one fund will suffice, and the Department may have program codes that are not necessary for accurate and efficient accounting.

RECOMMENDATION 05S-14

We recommend that the Department eliminate unnecessary funds and program codes.

CORRECTIVE ACTION PLAN

The Department will consider eliminating certain funds and program codes.

FINDING 05S-15

The accounting has errors and is not completed in a timely manner.

In the prior audit report, we noted several accounting errors and financial statements that were not completed in a timely manner. Again, although we contacted the Department and requested that the financial statements be completed before we began the audit, they were not. When we did receive the financial statements, we again found errors. For example:

1. Operating expenses, as reported on the income statement, were under-reported by about \$2 million.
2. The balance sheet only reported assets and liabilities, and did not report net assets. We determined, after calculating net assets, that the net assets did not agree with net assets reported on the income statement. These should agree.
3. The cash flow from operating activities, as recorded on the Statement of Cash Flows, was about \$200,000 less than it should have been, and could not be reconciled to operating income.
4. Some financial statement amounts did not agree with supporting documentation. For example, loan interest received in STARS did not agree with loan interest received in the loan accounting system.

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5. Many cash transactions reported on the Statement of Cash Flows did not agree with the underlying amounts on the balance sheet, and income statement and adjustments were necessary.

These errors can lead to entities over- or underpaying loan amounts, incorrect management decisions, non-compliance with loan agreements, and misappropriation of assets.

We believe these errors are caused by one employee having complete control over the accounting process, with little oversight or review. Also, the lack of a fully integrated and automated accounting system may contribute to some of these errors.

RECOMMENDATION 05S-15

We recommend that the Department:

1. **Ensure that more than one person is trained to complete the accounting, and that management provide oversight and review in a timely manner.**
2. **Consider purchasing a new integrated accounting system.**
3. **Generate accounting reports in a timely manner.**
4. **Enhance internal controls by completing timely reconciliations.**

CORRECTIVE ACTION PLAN

The Department will:

1. Purchase a new loan processing program.
2. Ensure that additional staff is trained to do the Fund's accounting.
3. Generate accounting reports in a timely manner.
4. Complete timely reconciliations of transactions and use one fund detail for accounting.

CONTACT PERSON

Toni Hardesty, Director
Idaho Department of Environmental Quality
208-373-0502

HEALTH AND WELFARE, DEPARTMENT OF

FINDING 05S-16

Fees for mental health services are based on poverty rates that are more than 13 years old.

Mental health services are provided to clients at the Department's regional offices as part of the Community Mental Health Services program. It is the Department's policy to charge fees to clients based on their ability to pay, as determined by a discount schedule shown in Administrative Rules, section 16.04.03. In addition, liable third-party sources, including private health insurance, Medicaid, and Medicare, must be included in developing a client's total ability to pay to maximize reimbursement for the cost of service provided.

Many of the fees charged for Community Mental Health Services have not been updated for years. For example, established fees for various diagnostic and treatment services listed in section 100.09 of the rules have not been adjusted since January 1994. The sliding-fee scale, shown

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in section 100.03, is based on federal poverty rates in effect as of February 12, 1993, more than 13 years ago.

The outdated fixed-fee amounts may result in some under-recovery of program costs. However, the outdated sliding fee scale results in clients paying a higher share of the costs in error.

RECOMMENDATION 05S-16

We recommend that the Department adjust the fees listed in the Community Mental Health Services administrative rules to reflect current rates and federal poverty guidelines. We also recommend that the Department consider amending these rules to describe the method for determining the fees, rather than detailed values or fixed amounts, as a way to avoid the need for future amendments.

CORRECTIVE ACTION PLAN

The Department will seek to change the rule so that it describes the scale method and refers to the current federal poverty limits. The rule change will exclude the detailed fixed prices for services that are covered under Medicaid and make reference to the Medicaid fee schedule. The Department will also update all fees not addressed by Medicaid.

This rule change will require parallel changes in the "Fees for Developmental Disabilities Services" as they use the same poverty rates, sliding fee scale and billing system as the Adult Mental Health Program. There may also be an impact to the "Rules Governing Family and Children's Services" which identifies fees for children's mental health services and includes the use of a sliding fee scale, based on 1998 poverty rates.

FINDING 05S-17

Administrative rules for recovering certain types of Medicaid costs from parents are not enforced.

Administrative rules governing the Medical Assistance Program (IDAPA 16.03.09.031) identify the Department's intent to recover from a child's parents, all or part of the cost of certain types of Medicaid services to a child. These rules were developed in response to legislation passed in 1994, which included an appropriation to implement the Legislature's intent that the Department make and collect assessments on a sliding-fee scale from parents whose children are living in nursing homes, immediate care facilities for the mentally retarded (ICF-MR), or receiving benefits under the Certain Disabled Children (Katie Beckett) Program. It was estimated that this action would save Medicaid \$727,200 in fiscal year 1995. These rules were last amended on July 1, 1997.

Some parents of disabled children filed an action in Idaho's Fourth Judicial District Court. On February 25, 1998, the court ruled that the Department could not require parents to share in the cost of care for children in this program. This ruling was specific to the issues relating to recovery of costs for children in the Katie Beckett program. It did not specifically preclude the Department from pursuing the recovery of medical costs for services to children in nursing homes or ICF-MR.

We found no indication that the Department has taken steps to enforce these rules and collect amounts from parents, seek to amend or delete all or part of these rules, or appeal the District Court's decision relating to the recovery of costs within the Katie Beckett program. The Department's subsequent inaction concerning these requirements has resulted in missed opportunities to potentially recover millions in Medicaid costs from parents, as directed by the 1994 Legislature.

RECOMMENDATION 05S-17

We recommend that the Department undertake a complete analysis of the legal and legislative requirements for recovering certain Medicaid costs from parents. This analysis should seek to resolve the issues of whether to amend or delete these rules, appeal the District Court's ruling, or request legislation to clarify the intentions or authority to recover these costs from parents.

CORRECTIVE ACTION PLAN

The Department has analyzed this issue in conjunction with the Deputy Attorney General. Our current rules are inconsistent with federal law and not enforceable as demonstrated by the District Court ruling. The Department plans to review the statutory, legal and administrative issues during the coming months to determine the appropriate resolution.

INDEPENDENT LIVING COUNCIL, IDAHO STATE

FINDING 05S-18

The Council's internal control policies are not consistently followed and, in some cases, need strengthening.

The State Independent Living Council was created as an entity independent from other State agencies in July 2004. Prior to fiscal year 2005, the Council was part of the Division of Vocational Rehabilitation. Since becoming a separate entity, the Council has established a relationship with the State Controller's Office to use the State accounting system (STARS), and has made a good effort in drafting some policies and procedures.

However, some internal control procedures are not consistently followed or are in need of improvement. Some examples of internal control weaknesses are:

1. The Council utilizes a budget-to-actual report as a significant control tool in its internal control system. The report does not reconcile to the data in the STARS accounting system.
2. The fiscal year 2005 budget-to-actual report shows a budget of \$6,000 for rental income. The budget-to-actual report also shows the receipt amount was indeed \$6,000. The Council's STARS information shows that there was \$6,500 in rental income receipts. STARS also showed another \$1,000 related to rental income accounted for using a separate and incorrect sub-object code, resulting in a \$1,500 discrepancy not shown on the Council's budget-to-actual report.
3. The Council's accounting staff has learned a lot in a short time; however, it does not have complete training or understanding of STARS, and does not consistently comply with the internal control policies that have been implemented. Inadequate

training and understanding of STARS, coupled with the inconsistent compliance to controls, may lead to the Council making financial decisions based on erroneous data.

Accounting standards require that the Council maintain an internal control system that is designed to provide reasonable assurance of the prevention or prompt detection of the unauthorized acquisition, use, or disposition of assets.

RECOMMENDATION 05S-18

We recommend that the Council's staff contact the State Controller's Office for additional STARS training, and follow accounting procedures in a consistent manner.

CORRECTIVE ACTION PLAN

Staff has been requested to continue necessary training in STARS to further their understanding and knowledge of the system. Staff will also institute changes to ensure that policies and procedures are consistently and correctly followed.

CONTACT PERSON

Kelly Buckland, Executive Director
Idaho State Council on Independent Living
208-334-3800

INDUSTRIAL COMMISSION, IDAHO

FINDING 05S-19

The Industrial Administration Fund averaged \$5.9 million in excess cash each month during fiscal year 2005.

Average monthly excess cash during fiscal years 2002, 2003, 2004, and 2005 was \$4.5 million, \$3.8 million, \$4.4 million, and \$5.9 million, respectively.

The money in the Industrial Administration Fund comes from the premium tax established in Idaho Code, Section 72-523. The premium tax rate is 2.5% of net workers' compensation insurance premiums written by sureties, and 2.5% of premium amounts self-insurers would be required to pay as premiums to the State Insurance Fund. Because the premium tax rate is fixed, management cannot adjust the rate to reduce excess cash or increase cash, as needed, without legislation.

Cash in the Industrial Administration Fund is a combination of cash used in operations and cash invested with the State Treasurer's Office. Management invests excess cash to earn interest.

Premium tax revenue has increased over the last three years due to good economic conditions and increases in premiums charged to ratepayers by insurers. A good economy translated into higher employment with higher payrolls, resulting in more premiums written, on which premium tax is based.

The premium tax rate should be commensurate with the financial requirements for administering the Workers' Compensation Law. Excess cash continues to accumulate and insurers and ratepayers may be

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overcharged because management cannot adjust the premium tax rate in a timely manner to match cash needs.

RECOMMENDATION 0S-19

We recommend that the Commission monitor the fund's cash balance with the cash needs of the Commission and propose recommendations to the legislature for appropriate adjustments as needed.

CORRECTIVE ACTION PLAN

The Commission concurs that having an adjustable rather than fixed funding source would be better for planning and managing the agency's needs. This idea was proposed to the Industrial Commission's Advisory Committee, comprised of constituent groups affected by the Workers' Compensation law, including legislators, in 2004. The idea was not popular amongst the members, and therefore, we did not proceed with drafting legislation. Given this recent audit recommendation, however, we will bring the finding before the Advisory Committee once again for their input. It is too late to consider legislation for the 2006 session, so the audit findings and recommendations will be shared with the Advisory Committee at its meeting in March 2006.

CONTACT PERSON

Don Robbins, Financial Officer
Idaho Industrial Commission
208-334-6042

VOCATIONAL REHABILITATION, DIVISION OF

FINDING 05S-20

The Community Supported Employment Program and related services are not coordinated or monitored.

During fiscal year 2004, the legislative auditors issued a report on the Department of Health and Welfare that concluded the Community Supported Employment Program needed better coordination or monitoring. This program is funded by General Fund appropriations, and is used to pay providers for community-supported employment and related services for developmentally disabled clients. This program was shifted from the Department of Health and Welfare to the Division of Vocational Rehabilitation at the beginning of fiscal year 2005.

During fiscal year 2005, the Division received \$3.97 million for the Community Supported Employment Program. Most of these funds (\$3.76 million) were paid to providers for community-supported employment and related services, and the remainder was used for program administration. Many of the providers also provide developmental therapy services that are billed to the Medicaid program. During fiscal year 2005, more than \$28.7 million in Medicaid funds was paid to these same providers. Other State agencies, including the Department of Commerce and Labor, Department of Administration, and Department of Health and Welfare, purchased about \$3 million for other goods and services provided by the providers. These amounts have increased dramatically from fiscal year 2003 when the community-service program was \$3.2 million, Medicaid was \$7 million, and amounts purchased by other State agencies was \$1.8 million.

The Division has two employees specifically assigned to the program. The Division has established a contract with each provider that has 30 requirements, ranging from a general overview; training clients; reporting; and record maintenance. The two employees visit provider sites and help train provider personnel, resolve client complaints, and review documentation, as specified in the provider contracts. The records reviewed to ensure compliance with the contract are not documented.

The Division has not established follow-up procedures for monitoring the client services to ensure that the billings are accurate for the services provided. We did not make any site visits; however, we reviewed the list of clients served by two providers. In one case over 50% of the clients (25 of 49) were receiving services paid by Medicaid, as well as support from the Division for extended employment services. The second provider had nearly 36% (69 of 193) of its clients receiving services from both agencies. Although the services provided by Medicaid and the Division are not similar, the potential exists that providers could claim reimbursement from more than one funding source or entity for the same time period.

Coordinating and monitoring funding for community-supported employment is essential, given the amount of funds involved from multiple sources, and the need to ensure that resources are properly accounted for and applied. Without full monitoring of program services and related costs, the Division is unable to ensure that General Fund support at the current level is adequate to meet the program objectives.

RECOMMENDATION 05S-20

We recommend that the Division establish a monitoring program for Community Supported Employment Program. The specific contract criteria is a good starting point to establish and document a monitoring program. Monitoring should include addressing the performance of the providers in accordance with the contract, verifying and validating monthly billings, and tracking reports and documentation received from the providers.

CORRECTIVE ACTION PLAN

The Division is committed to obtain services paid for by the program funds in all areas. In the case of the Extended Employment (EE) Program, the initial part of that assurance is captured by the activity identified by the legislative auditors.

The two employees visit provider sites and help train provider personnel, resolve client complaints, and review documentation, as specified in the provider contracts.

Over the past year when difficulties in billing or concerns of matching service provision to submitted bills, the EE employees have traveled to the vendor location, met with clients, verified appropriateness of service, and, when needed, denied payment of questionable bills. A foundational level of appropriateness of service by providers is the requirement to be certified by one of two regional or national certification bodies. All but one of current vendors presently meet this criteria, and the one in question will not be reimbursed for services after April 1, 2006.

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A draft form for monitoring vendor activities pertaining to purchase services by the EE employees is under development. The two employees will complete the development of the monitoring procedure by the end of April 2006, and implement the new process by the end of May 2006. The new procedure will be presented to the EE vendors through their two primary membership groups, the Vocational Providers of Idaho and the Idaho Association of Community Rehabilitation Programs. This timing will be in keeping with the effective date of the new EE fiscal year. The emphasis of the monitoring procedure will be to ensure services paid for by the agency are services rendered by each of the vendors.

As administrator, one concern from the audit is the appearance of a double standard required of the EE program in monitoring. IDVR, as an agency, does not monitor any other providers outside of the EE program for services, with whom we have contracts to ensure that double payments are not processed. We hold agreements with organizations such as universities, tribal vocational rehabilitation programs, and other entities, in which there are possibilities of duplicate resources captured by the provider. We do not have the manpower or the apparent authority to address this concern with other vendors. The concern now exists that a more rigorous standard is required by the Division in the case of some vendors (e.g., community rehabilitation programs). With this new requirement, the Division may be required to exercise discriminate behavior to a specified group of vendors.

CONTACT PERSON

Mary Quarles, Fiscal Operation Manager
Idaho Division of Vocational Rehabilitation
208-287-6450

WATER RESOURCES, DEPARTMENT OF

FINDING 05S-21

Controls over the Department's energy loan program are not adequate.

The Department provides financial assistance by making low-interest loans to individuals and organizations for programs and projects that result in energy conservation or the utilization of renewable resources. The following describes some control weaknesses with the loan program.

1. One employee is responsible for approving loan disbursements, setting up accounts receivable, making adjustments to receivable balances, receiving payments, posting payments to loan accounts, and completing reconciliations of the energy loan database to the statewide accounting system (STARS) with little or no other review. These duties should be separated to improve internal controls.
2. Loan-receivable balances from the Department's energy loan database did not agree with balances recorded in STARS during the audit period, even though the Department has made adjustments totaling \$86,000. Some of the adjustments were made to write off bad debts. These adjustments were not properly made, and the Department does not have documentation to support other adjustments.

3. The Department has an unexplained receivable balance in STARS of \$2,196 in one of its energy loan funds that has not changed in the past three years.
4. The Department relies on local banks to review energy loan applicants for credit worthiness. These banks certify that the applicant is credit-worthy in accordance with guidelines provided by the Department. However, the Department has not provided any credit guidelines to the bank.

Good accounting procedures should include separation of accounting functions, reconciliations, and supervisory reviews to ensure that loans are properly reported and funds are not misappropriated. It is unclear why some of these issues exist. However, a lack of management reports for the loan accounting program makes it difficult to complete reconciliations since the specific differences between the loan program and STARS cannot be easily identified.

RECOMMENDATION 05S-21

We recommend that the Department review its loan program and consider the need for reports that will help it manage the program. We also recommend that the Department improve internal controls and accounting procedures by:

- 1. Reviewing the accounting duties and separating them accordingly to improve controls.**
- 2. Keeping detail documentation to support adjustment transactions and ensuring bad debt expenses are properly recorded.**
- 3. Researching receivable balances and taking the necessary action to ensure they are properly resolved.**
- 4. Providing credit guidelines for the bank to follow when approving energy loans or change the wording on the loan application.**

CORRECTIVE ACTION PLAN

The Department had identified needed improvements in most of these areas, and had planned improvements prior to the audit. Implementation of improvements was initiated prior to issuance of the audit report. The actions taken to address these recommendations for improvement are described below.

1. Program software has been modified, and staff have been assigned new duties to segregate the activities described to improve controls. Now, two employees have been designated to set up accounts receivable, approve loan disbursements, and determine and assign bad debt. Two different employees have been designated to make adjustments to receivable balances. The latter two employees and a third employee have been designated to receive payments and post payments to loan accounts. One of the latter two employees and the Department's financial manager have been designated to reconcile the energy loan database to STARS.
2. Loan receivable balances have been reconciled to STARS. Documentation for the earlier adjustments was provided in an e-mail to the State Controller's Office requesting the adjustments. As soon as the Fiscal Policy Advisory Committee finalizes the Notes Receivable Write Off Policy, and the State Controller's Office creates transaction codes for uncollectibles, we will be in complete balance with the STARS notes receivable reports.

**State Findings and Recommendations
For Fiscal Year 2005**

3. The receivable balance of \$2,196 in Fund 0494-02 has been removed. The transaction was incorrectly entered, creating the notes receivable in Fund 0494-02 instead of Fund 0490-02.
4. Each loan program financial institution has been contacted to determine a minimum credit score that will be required for approval of program applicants. Based on the results of those contracts, a minimum credit score of 620 points has been determined. All participating financial institutions were provided written notice of this requirement. The "Bank Credit Decision and Request for Payment" form has been modified to read:
"I have reviewed this applicant for credit worthiness according to our financial institution's standards and criteria provided by the Department of Water Resources and hereby request payment as totaled above."

CONTACT NAME

**Karl J. Dreher, Director
Department of Water Resources
208-287-4800**

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF PRIOR STATE
FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Reports released by the Idaho Legislative Services Office, Legislative Audits, during the fiscal year 2004 audit cycle included 25 findings and recommendations to improve State operations. The fiscal year 2004 audit reports also included 18 issues that were reported during prior audit cycles that had not been fully resolved. Of the 43 findings and recommendations, 22 are considered closed. None of the remaining open findings are considered material as defined by the American Institute of Certified Public Accountants.

<u>Finding Number</u>	<u>Finding Description</u>	<u>Status</u>
<u>ADMINISTRATION, DEPARTMENT OF</u>		
01S-8	The Office of Group Insurance Management did not implement an actuary recommended plan to eliminate the deficit between its fund balance and reserve requirements.	IN PROCESS
04S-1	The Idaho Special Indemnity Fund made no documented effort to collect assessments and penalties, which totaled \$365,000 for the past three years.	CLOSED
04S-2	The Division of Purchasing did not adequately monitor vendors to ensure that all required fees were submitted.	IN PROCESS
04S-3	The State Record Center's billing and accounting system did not provide accurate billing and financial information and, under current policies and procedures, additional space will continually be needed to store the 300 boxes of records that are added each month.	IN PROCESS
04S-4	Some accounting procedures, documentation, and controls were inadequate to ensure accurate information.	CLOSED
<u>AGRICULTURE, DEPARTMENT OF</u>		
03S-1	The Department did not always complete product label reviews for commercial feed and fertilizer products in a timely manner.	IN PROCESS
03S-5	The Department was not monitoring the program and financial activities of the "Agriculture in the Classroom" contract manager.	IN PROCESS
03S-7	Internal controls over miscellaneous receipts were inadequate.	IN PROCESS
<u>ARTS, COMMISSION ON THE</u>		
02S-1	The Commission's accounting needed improvement.	CLOSED
<u>BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE</u>		
04S-5	The Commission needed to improve controls to ensure that all potential Social Security Administration reimbursement claims are identified and properly calculated.	IN PROCESS
04S-6	Accounting controls for the Commission's aids and appliances inventory were inadequate.	CLOSED
<u>CERTIFIED SHORTHAND REPORTERS, BOARD OF</u>		
02S-15	Deposits and payments were not completed in a timely manner, and late penalty assessments were not well-documented.	CLOSED

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For the Fiscal Year Ended June 30, 2005**

CONTROLLER, OFFICE OF THE STATE

04S-7	The Office had no formal information technology planning/steering committee, nor did it have well-defined long- and short-range information technology plans.	IN PROCESS
04S-8	The Office had no service-level agreements with its business partners to ensure the continuity of critical business services.	IN PROCESS
04S-9	The employee information handbook did not contain effective, up-to-date policies regarding computer, Internet, or e-mail usage.	CLOSED
04S-10	The Office did not routinely cross-train its information technology staff.	IN PROCESS
04S-11	The Office had no alternate power source to sustain the State's central computer system for an extended period of time in case of a power outage.	CLOSED
04S-12	The business continuity plan did not address all key internal and external controls.	IN PROCESS

CORRECTION, DEPARTMENT OF

01S-21	Department processes for its rotary fund did not ensure accurate and proper accounting of transactions.	CLOSED
01S-23	Inmate work projects were not properly accounted for to ensure that the Department was collecting all amounts it was owed.	CLOSED
01S-24	Department food cost reports were not accurate.	CLOSED
01S-25	The Department may not have complied with State purchasing laws and rules.	CLOSED
01S27	The Department did not always collect or monitor receivables in accordance with its policies.	CLOSED

ENVIRONMENTAL QUALITY, DEPARTMENT OF – CLEAN WATER STATE REVOLVING FUND

04S-13	The Department had not invested available cash in the State Treasurer's long-term investment pool in order to increase earnings.	CLOSED
04S-14	The system used for the Fund's accounting was cumbersome and contributed to accounting errors.	CLOSED
04S-15	Documentation in the loan files was not always adequate to support loan transactions or other loan decisions.	CLOSED

ENVIRONMENTAL QUALITY, DEPARTMENT OF – DRINKING WATER STATE REVOLVING FUND

04S-16	The system used for the Fund's accounting was cumbersome and contributed to accounting errors.	CLOSED
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FOOD QUALITY ASSURANCE INSTITUTE, IDAHO

04S-17	Decentralized operations contributed to errors and internal control weaknesses.	CLOSED
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HEALTH AND WELFARE, DEPARTMENT OF

04S-18	Contracting information technology services was not cost-effective when compared to hiring State staff.	CLOSED
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State of Idaho**Schedule of Prior State Findings and Recommendations
For the Fiscal Year Ended June 30, 2005**

HISTORICAL SOCIETY, IDAHO STATE

02S-8	Accounting procedures did not ensure efficient and accurate reporting.	IN PROCESS
02S-9	Internal controls over receipts were not adequate.	IN PROCESS

IDAHO STATE POLICE

02S-16	Idaho State Police information technology planning procedures did not include a detailed business resumption plan.	IN PROCESS
02S-18	Idaho State Police had not established formal computer system development standards or applications documentation.	IN PROCESS

IDAHO TRANSPORTATION DEPARTMENT

03S-21	Accounting for receipts at the Division of Aeronautics needed improvement	OPEN
03S-23	The Division of Aeronautic's accounting for courtesy cards needed improvement or the program modified.	OPEN

LIQUOR DISPENSARY, STATE

04S-19	The Dispensary sold some products that it may not have legislative authority to sell.	IN PROCESS
04S-20	The 2% surcharge required by Idaho Code was not assessed on some items, resulting in the Dispensary not collecting \$11,300 for the Drug and Family Court Services Fund.	CLOSED
04S-21	The Dispensary did not have a procedure to determine changes to local option sales tax rates, resulting in \$25,000 in sales tax that was not collected.	CLOSED
04S-22	Sales tax was collected from the sale of non-liquor items, but not deposited in the Sales Tax Account.	IN PROCESS

MILITARY, DIVISION OF

04S-23	Some accounting procedures did not ensure that controls were in place and that the financial information was accurate.	CLOSED
04S-24	The Division's information technology structure did not allow for efficient performance and timely management information.	IN PROCESS

PARKS AND RECREATION, DEPARTMENT OF

03S-29	The Department did not have a current written information technology plan and lacked written procedures for updating systems security.	IN PROCESS
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TREASURER, OFFICE OF THE STATE

04S-25	Internal controls were not adequate to ensure the accuracy of all transactions in the Local Government Investment Pool.	CLOSED
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STATE OF IDAHO
SINGLE AUDIT REPORT
PRIOR STATE FINDINGS AND RECOMMENDATIONS
PRIOR TO THE FISCAL YEAR 2005 AUDIT CYCLE
PRIOR TO THE FISCAL YEAR 2004 AUDIT CYCLE

<u>Issue Number and Status</u>	<u>Finding Description and Status Explanation</u>
<u>ADMINISTRATION, DEPARTMENT OF</u>	
01S-8	<p><u>The Office of Group Insurance had not implemented an actuary recommended plan to eliminate the deficit between its fund balance and reserve requirements.</u> For the past few years, an independent actuary recommended an increase in the Department's insurance reserves, by placing an additional \$12.8 million in reserve over ten years, as well as considering modifications of coverages and premiums.</p> <p>We recommended that the Department implement a plan to meet the recommended reserves or establish a funding level that is less than the recommended reserves. The Department should inform the Legislature and the Governor of its plan.</p> <p>Current Status: IN PROCESS</p> <p>The Department has yet to implement a formalized plan, but does agree that a formalized plan is necessary and intends to implement one.</p>
<u>ARTS, COMMISSION ON THE</u>	
02S-1	<p><u>The Commission's accounting needed improvement.</u> Although the Commission has made significant efforts to make improvements, there were still problems with its accounting processes. Numerous errors and corresponding adjustments showed that staff training and management was needed. Additionally, federal cash draws and reimbursements could not be reconciled with the accounting records and corresponding expenditures. Finally, advances to subgrantees were not properly accounted for in the Commission's records.</p> <p>We recommended that the Commission develop processes for determining the grant expenditures charged to a particular grant and reconciling federal expenditures to federal receipts, use its internal tracking system to account for and monitor advances to subgrantees, and complete reviews in a timely manner to reduce errors and eliminate adjustments.</p> <p>Current Status: CLOSED</p> <p>Federal receipts can now be tracked to specific expenditures, grant advances are tracked, and final grant payments are not made until all the required documentation has been received. Management has implemented various reviews to increase coding accuracy.</p>
<u>CERTIFIED SHORTHAND REPORTERS, BOARD OF</u>	
02S-15	<p><u>Deposits and payments were not completed in a timely manner, and late penalty assessments were not well-documented.</u> The Board's administrative office consists of one part-time employee, who completes all accounting duties and most administrative functions for the Board. Although we found that accounting is complete, we did note a few areas</p>

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2005 Audit Cycle**

that needed improvement. For example, deposits were not made in a timely manner and vendor payments were sometimes made 60 or 120 days after the invoice date. Also, the Board did not maintain documentation to determine whether late fees were properly assessed.

We recommended that the Board review current processes in order to streamline accounting and administrative processes. This will allow more time to ensure that:

- 1. Deposits are made in a timely manner in accordance with Idaho Code.**
- 2. Payments are made in a timely manner.**
- 3. Records are maintained that show that the Board assessed penalties for late payments in accordance with Idaho Code.**

Current Status: **CLOSED**

The Board has made improvements to its accounting and administrative processes. Deposits are now made in a timely manner, and vendors are also paid in a timely manner. Additionally, the Board now keeps records to show that it assesses late payment penalties in accordance with Idaho Code.

CORRECTION, DEPARTMENT OF

01S-21

Department processes for its Rotary Account did not ensure accurate and proper accounting for transactions. Rotary accounts allow agencies to write site drafts for small purchases and travel advances. Agencies using rotary accounts must submit a monthly reconciliation to the State Controller's Office showing the authorized amount, site drafts written, claims processed, and claims outstanding. Some problems with the Department's use of its Rotary Account were: (1) duplicate payments to inmates when closing an inmate's trust account upon release; (2) untimely monthly reconciliations; and (3) outstanding site drafts totaling more than \$15,000, some of which were to individuals no longer employed by the Department.

We recommended that the Department improve accounting for its Rotary Account transactions. Specifically, we recommended:

- 1. Eliminating payment of inmate trust balances with Rotary Account site drafts.**
- 2. Completing monthly reconciliations in an accurate and timely manner.**
- 3. Obtaining claim documentation from employees who have outstanding advances.**
- 4. Ensuring that the balance reported in the accounting system agrees with the balance reported on the monthly reconciliations.**
- 5. Ensuring, before terminating employees, that the employees account for all outstanding advances.**

Current Status: **CLOSED**

In July 2004, the Department discontinued use of the rotary account and closed it.

01S-23

Inmate work projects were not properly accounted for in order to ensure that the Department collected all amounts it was owed. The Department contracts with government and not-for-profit entities to use inmate labor for work projects such as forest fire prevention and control, recreational area development, and soil conservation. It reports about \$3 million in annual revenue from these projects.

The Department did not always complete project billings in a timely manner. For example, accounting staff did not know that two projects even existed until inmates complained about not receiving wages. Upon investigation, it was determined that \$78,000 should have been billed but was not. Also, the Department was not adequately monitoring project receivables. Only \$8,500 of the \$78,000 mentioned above has been paid, and the Department has not followed up to determine why full payment had not been received.

The Department has written a division directive and developed an automated inmate labor tracking system to ensure proper administration of work projects. However, not all institutions are complying with the directive or fully utilizing the inmate labor tracking system.

We recommended that the Department enforce compliance with the division directive and use the inmate labor tracking system to help ensure projects are properly established and accounted for.

Current Status: **CLOSED**

The Department has decided to replace its inmate tracking system with a new project accounting system. However, the new system is not yet fully developed, and cost rates used to justify fees charged to customers are not adequately supported. This finding is closed and related issues repeated in a subsequent report.

01S-24

Department food cost reports were not accurate. Each month the Department's fiscal section generates a food-cost report for each correctional facility showing the cost to prepare each meal. Due to large fluctuations in the costs reported by month and between institutions, we questioned the accuracy of these reports. For example, the reported cost-per-meal at the Idaho State Correction Institution (ISCI) was \$1.14 for July 2000, while at the North Idaho Correctional Institution (NICI) it was 61¢. Similarly, the reported cost per meal at ISCI for October 2000 was 70¢ and in November 2000 it was \$1.09.

Since all institutions are supposed to use the same menu and portion size when preparing meals, costs should not vary significantly. Some staff agreed that the food cost reports (distributed to wardens, division administrators, and other applicable managers) were not accurate.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2005 Audit Cycle**

We recommended that the Department determine the purpose, accuracy, and use of the food cost reports. The Department should:

1. Determine why the reports are inaccurate and make changes necessary to ensure accuracy.
2. Review the reports for reasonableness before distribution.
3. Determine whether managers use the reports and, if not, consider no longer generating them.

Current Status: **CLOSED**

The Department has improved its food cost reporting to provide useful, reasonable reports or discontinued unnecessary reports.

01S-25

The Department may not have complied with State purchasing laws and rules. Idaho Code, Section 67-5726 (4) states, "No office or employee shall fail to utilize an open contract without justifiable cause for such action." The Department may not have complied with this code section when staff did not purchase work boots from the vendor that was under State contract. The contract stated the vendor would provide specified inmate work boots for \$120 a pair. Some staff members purchased boots from a vendor not under contract at a cost of more than \$200 a pair. We could not find documentation justifying these purchases. Also, the Department is currently having a vendor perform routine drug test analyses without a contract. The prior contract expired several months ago.

We recommended that the Department comply with State purchasing rules and related Idaho Code sections by obtaining appropriate contracts and making purchases from State contracted vendors.

Current Status: **CLOSED**

We found no instances of the Department making purchases that were not in compliance with State purchasing regulations.

01S-27

The Department did not always collect or monitor receivables in accordance with its policies. The Department has accounts receivable resulting from inmate work projects, parolee and probationer cost-of-supervision fees, and other miscellaneous program receivables. The Department's accounts receivable were not always monitored for timely collection as required by policy.

We recommended that the Department monitor receivables in accordance with its policies to ensure that all billings are made in a timely manner and related receipts are properly coded.

Current Status: **CLOSED**

The Department made some improvements in monitoring receivables; however, the cost of supervision receivables are still not sufficiently monitored. This finding is closed and related issues are addressed in a subsequent report.

HISTORICAL SOCIETY, IDAHO STATE

02S-8

Accounting procedures did not ensure efficient and accurate reporting. The Historical Society did not fully utilize the State Accounting and Reporting System (STARS) for grant accounting, but used a series of spreadsheets to prepare grant reports. Posting information to the spreadsheets results in errors and is not efficient.

We recommended that the Historical Society improve its accounting by restructuring the coding scheme to more effectively use STARS and eliminate the use of spreadsheets.

Current Status: **IN PROCESS**

There has been a change in the personnel in the fiscal office, and the new financial specialist is striving to get the accounting procedures up to par. There has been contact with the State Controller's Office to gain information and training about STARS to balance the budget on a monthly basis, as well as produce forecasts, trends, and other requested reports as needed.

02S-9

Internal control over receipts was not adequate. The Historical Society uses cash registers to record admission receipts at the Historical Museum and the Old Penitentiary. The receipts totaled more than \$80,000 during fiscal year 2002. Controls for using cash registers were not adequate because there was no assurance that all collections were entered into the cash registers, duties were not segregated, and supervisors did not review and approve voided transactions. In addition, an electronic counter at the entrance to the museum exists, but was not used to reconcile the number of daily visitors to the amount of daily receipts.

We recommended that the Society improve internal controls over receipts by implementing the following steps:

- 1. Post a sign near the entrance of the Museum and the Old Penitentiary requesting patrons to obtain a cash register receipt, and instruct employees to issue cash register receipts to all patrons.**
- 2. Segregate duties by requiring that daily close-out of cash registers be completed by a supervisor and the cashier, and that both these employees sign the cash register tape to verify the amount collected and recorded.**
- 3. Explain each voided transaction and monitor and investigate those voided transactions that are excessive.**
- 4. Monitor cash collections (versus checks) and look for unusual trends or spikes in cash collection amounts.**
- 5. Use the electronic counter at the Museum and compare visitor counts to fees collected.**

Current Status: **IN PROCESS**

Management is striving to correct the situations at the Museum and Old Penitentiary. Two people now balance the money at the Museum, and volunteers and staff at the Old Penitentiary manage money collections, but the till is balanced by the interpretive specialist. The fiscal office now requests that a form be completed explaining voided transactions. It also monitors daily cash collections on a spreadsheet that lists all forms of

money collected by each entity, making it convenient to identify unusual trends and spikes in cash collections.

IDAHO STATE POLICE

02S-16

Idaho State Police (ISP) information technology (IT) planning procedures did not include a detailed business resumption plan. ISP's computer information systems are widely used and operate on a 24-hour-a-day basis. ISP does not have a written plan in place, detailing how to resume operations in a relatively short period of time in case of a disaster. Disaster recovery planning in today's technology environment requires a level of detail to address disruptive events caused by physical disasters (e.g., fire, flood, earthquake), as well as those caused by human error, short- and long-term power disruptions, computer viruses, failure of specific hardware equipment, and other events that could lead to loss of data or disruption of services and network access.

We recommended that ISP develop a written, detailed, and consolidated business resumption plan specific to IT, properly train employees, and keep the plan in a safe and secure location.

Current Status: **IN PROCESS**

The ISP IT Business Continuity Plan for 2005 is ready for command staff review and approval. The department will participate in a pilot baseline security assessment of IT critical systems. The ITRMC Business Continuity Subcommittee is sponsoring the project.

02S-18

ISP had not established formal computer system development standards or application documentation. Computer system development standards and application documentation are written support explaining how a system works, guidelines for developing computer systems, and written backup of the system software programs. Formalized standards and documentation need to be maintained to prevent losing critical information caused by staff turnover. This information is also beneficial when outside contractors are used for application development or programming.

We recommended that ISP establish formal written documentation of system development standards and existing program applications, and that ISP keep this documentation current as new projects are developed.

Current Status: **IN PROCESS**

ISP has implemented policies that require new projects or maintenance on legacy systems to be fully documented. It is currently documenting existing systems and establishing development standards to be followed for future project implementations.

AGRICULTURE, DEPARTMENT OF

03S-1

The Department did not always complete product label reviews for commercial feed and fertilizer products in a timely manner. Department records indicated that many companies' products were not reviewed and registered even though the companies had submitted registration fees. For example, 141 commercial feed companies paid registration fees totaling \$47,045 to register about 2,500 products that had yet to be registered. Similarly, 147 commercial fertilizer companies paid registration fees totaling \$26,990, and had yet to have their products registered.

We recommended that the Department improve its computerized registration process so that management can obtain reports necessary to monitor and complete reviews in a timely manner. We also recommended that the Department evaluate workloads and consider reassigning staff or hiring part-time help during peak registration periods.

Current Status: IN PROCESS

The Department is modifying its computerized registration process and expects it to be completed in mid-2005. The Department is also reevaluating the product registration process to ensure timeliness.

03S-5

The Department was not monitoring the program and financial activities of the "Agriculture in the Classroom" contract manager. The Department had contracted with a private firm to administer the "Agriculture in the Classroom" program. The contractor managed the program, collected receipts, and made disbursements from a bank account. The Department did not require program reports or monitor financial activity. For example, the contractor provided supporting documentation for only \$10,000 of the program's total \$42,000 expenditures.

We recommended that the Department improve its monitoring of the contractor. Specifically, the Department should:

- 1. Monitor collections to ensure they are deposited. This may entail, for example, comparing the number of workshop registrants with registration fees collected.**
- 2. Monitor disbursements to ensure they are proper, by selecting transactions and reviewing the supporting documentation.**
- 3. Require that the contractor submit reports and supporting documentation to show that program objectives are being met.**
- 4. Transfer the money in the private bank account to the State Dedicated Fund and deposit future program collections in the State Dedicated Fund.**

Current Status: IN PROCESS

The Department's fiscal section has reviewed the contractor's accounting records, and the agreement with the contractor has been updated to include some of the audit recommendations. However, some control issues the fiscal section noted from its review have not yet been resolved, and the contractor is not submitting documentation to show that program objectives are being met.

03S-7

Internal controls over miscellaneous receipts were inadequate. We found control weaknesses for receipts in some of the Department's programs. Improving controls will help ensure that money is not misappropriated and that employees are protected from potential allegations of wrongdoing. The following control weaknesses needed improved:

1. License revenue did not always agree with licenses issued.
2. Some produce dealers may be selling produce without a license since the Department had not reviewed the applications or issued licenses even though the produce dealers had paid the license fees.
3. Checks were not restrictively endorsed upon receipt. In some cases, three employees handled checks before they were restrictively endorsed.
4. Billing duties were not always adequately segregated. In some cases, one person was responsible for invoicing, receiving payments, and posting to customer accounts without another employee reviewing the work.
5. Receipts were not always deposited in a timely manner. Some receipts were held up to one month before the Department deposited them.
6. The Department did not always follow up on past due receivables and, in some cases, the cost to process some small invoices and establish a receivable may exceed the value of the amount invoiced.

We recommended that management provide employee training that explains the need to monitor receipts, including but not limited to, agreeing license receipts to licenses issued, restrictively endorsing checks upon receipt, segregating duties, depositing receipts in a timely manner, and monitoring receivables.

Current Status: **IN PROCESS**

The Department agreed with the recommendation and is in the final process of enhancing controls to ensure receipts are properly accounted for.

IDAHO TRANSPORTATION DEPARTMENT

03S-21

Accounting for receipts at the Division of Aeronautics needed improvement. The Department's Division of Aeronautics could improve accounting for receipts by billing and depositing collections in a timely manner, making reconciliations to ensure all amounts are properly collected, and monitoring and collecting receivables. The following explains:

1. The Division did not make regular or timely requests for federal funds from the Federal Aviation Administration (FAA). For example, the Division accumulated almost \$130,000 in eligible costs for more than a year before making a request, and in another instance, more than \$233,000 was accumulated for six months before making a request.
2. The Division sometimes held receipts for almost a month before making a deposit.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2005 Audit Cycle**

3. The Division did not document its attempts to collect in-State air transportation billings that had been outstanding for more than a year.
4. The Division did not reconcile conference registration fee collections with the amount deposited, and could not explain why some registration fee remittances were not recorded as collected.

We recommended that the Division of Aeronautics improve internal controls and accounting procedures for receipts by billing and depositing all money in a timely manner, following up on past-due accounts, and reconciling fees collected with amounts deposited.

Current Status: **OPEN**

The Division has made several improvements, but additional improvements can be made. Reimbursement requests from the FAA are more timely, but some large dollar requests could have been made a month earlier. Also, some deposits can be made in a more timely manner.

03S-23

The Division of Aeronautics' accounting for courtesy cars needed improvement or the program modified. The Division owns about 20 courtesy cars to provide ground transportation for visitors when other transportation is unavailable or limited. The airports maintain the vehicles, collect user fees of about \$10,000 a year, and provide monthly usage and accounting reports to the Division. Some accounting problems with the program were:

1. Courtesy car money had been stolen and, in some instances, cash shortages occurred and went undetected by the Division.
2. Monthly airport reports were not accurate. Revenue amounts reported did not agree with amounts deposited, expenditures were not recorded on the financial reports, and beginning cash balances did not agree with the prior report's ending cash balances.
3. Some airports did not reconcile the joint State and airport courtesy car checking account in a timely manner and some airports did not maintain a check register.
4. Some airports deposited receipts to personal accounts before transferring them to courtesy car checking accounts.

We recommended that the Division consider modifying the courtesy car program. Specifically, the Division should consider transferring the vehicles to the local airports and have the airports administer the courtesy car program. Otherwise, the Division should train the program manager to effectively monitor the financial operations of the program, perform periodic reviews of the local programs to ensure adequate internal controls and accurate accounting.

Current Status: **OPEN**

The Division has made efforts to correct problems with this program. Management is currently investigating and evaluating various options, but no major changes have been adopted. Despite these efforts, the program continues to have inaccuracies in its financial records and reports, and the

program manager has not yet received adequate training to successfully monitor the program's financial operations.

PARKS AND RECREATION, DEPARTMENT OF

03S-29

The Department did not have a current written IT plan and lacked written procedures for updating systems security. The Department's IT needs were rapidly changing and required constant monitoring and maintenance. The following areas needed to be improved:

1. The Department did not have a current written short- or long-term IT plan that supported the Department's strategic business plan. The last plan was prepared in 1998 and most of the items identified in that plan have been completed. An updated plan should be prepared annually, and should support the Department's business plan to achieve departmental goals and objectives.
2. The Department did not have a detailed, written business resumption plan in place to use as a guide to resume operations, within a relatively short period of time, in case of a disaster or system failure. Disaster recovery planning requires a sufficient level of detail to address both short- and long-term disruptive events such as power failures, computer viruses, and hardware/software failure that could lead to the loss of data and disruption of services.
3. The Department did not have written procedures in place to update computer systems with the latest service packs and security updates for operating systems and applications in use. Checking and installing current updates and service packs reduces the vulnerability of systems to viruses and attacks.

We recommended that the Department develop written plans and procedures, including:

1. **Detailed short- and long-term IT plans that support the Department's strategic business plan.**
2. **Consolidated business resumption and recovery plans and proper training for employees who will implement the plans.**
3. **Procedures to update the system with the latest service packs and product fixes as they become available.**

Current Status: IN PROCESS

The Department is in the process of updating its computer systems with the latest service packs and product fixes. It has outlined the procedures necessary to update the short- and long-term IT plans, which will also include written procedures for keeping systems updated. In addition, the Department is in the process of documenting its IT plan, including a detailed business resumption and recovery plan, and expects to have all computer-related work to close the findings completed within the next 120 days.

FISCAL YEAR 2004 AUDIT CYCLE

<u>Issue Number and Status</u>	<u>Finding Description and Status Explanation</u>
<u>ADMINISTRATION, DEPARTMENT OF</u>	
04S-1	<p><u>The Idaho Special Indemnity Fund (ISIF) made no documented effort to collect assessments and penalties, which totaled \$365,000 for the past three years.</u> The ISIF is commonly referred to as the "Second Injury Fund" and is designed to encourage employers to hire impaired workers. The ISIF is funded by an annual assessment and interest earnings. Idaho Code, Section 72-327 requires the ISIF to determine the annual assessment by doubling prior fiscal year expenditures and subtracting the prior fiscal year cash balance.</p> <p>The ISIF, by agreement with the Industrial Commission, is responsible for collecting past-due assessments and penalties. However, the ISIF did not follow up on past-due assessments and penalties. Also, the ISIF could not explain why it did not respond to written correspondence from the Industrial Commission regarding the resolution of unresolved assessment and penalty balances.</p> <p>We were unable to determine why the ISIF did not make any collection efforts; however, the Department agreed that monitoring past due amounts could be improved and intends to make improvements.</p> <p>We recommended that the ISIF monitor and collect past-due assessments and penalties, and document these efforts in the ISIF files. We also recommended that ISIF inform the Industrial Commission about account balances so that the Industrial Commission could update its records.</p>
Current Status: CLOSED	<p>The ISIF is now monitoring and collecting assessments in a timely manner. Assessment balances that could not be collected were written off, and Industrial Commission records were updated. Better supervisory review and monitoring now occurs, ensuring that assessment balances are collected and resolved.</p>
04S-2	<p><u>The Division of Purchasing did not adequately monitor vendors to ensure that all required fees were submitted.</u> The majority of the Division's revenue comes from administrative fees remitted by private vendors. Private vendors collect the fees from State agencies by adding a surcharge (usually 1.25%) on items they sell to State agencies under certain purchasing contracts. The amount collected from vendors during fiscal year 2004 was about \$600,000. Vendors are required to collect the fees and remit them to the Department on a quarterly basis. The Division did not adequately monitor contract usage or complete other reviews to ensure that vendors were remitting the correct amounts. The Division was unable to provide a list of contracts containing the administrative fee clause, without separately reviewing each contract. We estimated that only 40% of the vendors remitted fees for each quarter in 2004. Also, some fees were incorrectly charged on non-contract purchases.</p>

We recommended that the Division develop procedures to monitor vendor fee remittances. Specifically, the Division should consider:

1. Keeping a list of contracts that include an administrative fee clause.
2. Developing a remittance form for vendors to complete and submit each quarter.
3. Comparing the forms submitted to the list of administrative fee contracts to ensure vendors submit the form.
4. Establishing dates by which the forms and remittances should be submitted.
5. Testing (sampling) vendor remittances periodically to ensure accuracy.

Current Status: **IN PROCESS**

The Department is developing a contract management system that will enable better monitoring of administrative fee remittances, as well as providing for necessary reconciliations, comparisons, and testing of vendor remittances.

04S-3

The State Record Center's billing and accounting system did not provide accurate billing and financial information and, under current policies and procedures, additional space will be continually needed in order to store the 300 boxes of records that are added each month. The State Record Center provides records management services to State agencies. It stores agency records in boxes, on computer backup media, and on microfilm. The Record Center also manages the physical movement of these records to and from the State agencies and bills various fees for its services.

The billing system is manually intensive, thereby increasing the opportunity for errors to occur. As a result of this and other manually intensive processes, accounting and management reports were incorrect. In some cases, agency billing amounts did not agree with billing logs, and some agencies that should have been billed were not. The management report used to monitor fiscal year billings was incomplete and the report detail did not reconcile with the total. Also, the invoice numbering system lacked consistency and employees lacked the necessary training to manage the interrelated computer reports.

The Record Center was accumulating and storing records that should be destroyed, converted to computer backup media or microfilm, or transferred to the State Archives. Not transferring or disposing of records required the Record Center to acquire more space. An average of 300 boxes were being added each month. While storage requirements may grow over time, the requirements could be reduced if the retention procedures and policies were modified.

We recommended that the Record Center:

1. Update its billing system to a more standardized, automated system and that staff be trained in its use.
2. Complete supervisory reviews of accounting and management reports.
3. Consider various ways to reduce the amount of stored records and, if needed, modify the record retention policy accordingly.

Current Status: **IN PROCESS**

The Department is developing a billing and inventory system that will assist Record Center management with billing, reviews, and reconciliations. The Department is also reviewing current retention procedures and policies.

04S-4

Some accounting procedures, documentation, and controls were inadequate to ensure accurate information. The Department is a large, complex entity, with much of its accounting completed by program personnel. The complexity and decentralization of accounting responsibilities require good procedures and controls to provide accurate information and ensure that assets are not misappropriated. Most of the errors and control weaknesses we found were not material, but should be addressed by the Department to ensure good controls and accurate information in the future. We found transactions with inadequate documentation, coding errors, calculation errors, and receipt processing control weaknesses.

We recommended that the Department develop controls and procedures that will help eliminate accounting errors and increase the accuracy of information. Specifically, the Department should:

- 1. Stamp expenditure documentation directly to show it is approved.**
- 2. Obtain properly approved documentation before processing sight drafts.**
- 3. Require customers to send checks directly to the fiscal section instead of program personnel.**
- 4. Make payments promptly.**
- 5. Use correct transaction codes to record revenues and expenditures.**
- 6. Make necessary corrections to lease/purchase analysis worksheets.**
- 7. Provide needed reconciliations and reviews to ensure that billing are correct.**

Current Status: **CLOSED**

The Department has implemented our recommendations. In addition, customers are being directed to send checks directly to the fiscal section as purchasing contracts are renewed.

BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE

04S-5

The Commission needed to improve controls to ensure that all potential Social Security Administration (SSA) reimbursement claims were identified and properly calculated. The SSA reimburses entities for the cost of rehabilitating clients who become employed for at least nine months within a 12-month period. The client must earn at least \$1,350 a month and must have received Social Security Disability Income (SSDI) prior to completing the rehabilitation program.

The reimbursement can be substantial. During the audit period, the Commission was reimbursed the following amounts: \$118,086 in fiscal year 2001 for two clients; \$79,591 in fiscal year 2002 for three clients; and \$123,994 in fiscal year 2003 for five clients. This is an average reimbursement of more than \$32,000 per client.

The Commission had no written procedures in place and relied solely on its counselors to identify clients who become employed. Although counselors have identified some clients, without reviewing its practices and developing sound procedures, all potential client reimbursement claims may not be identified, resulting in missed reimbursements to the Commission. Also, all five reimbursement claims in fiscal year 2003 were adjusted by the SSA without any follow-up by the Commission to determine why the adjustments were made.

We recommended that the Commission review current practices and SSA regulations, explore additional avenues to identify and verify client employment, and develop written policies and procedures. The written policies and procedures should include:

- 1. Monitoring clients who successfully complete rehabilitation.**
- 2. Determining an appropriate length of time to monitor clients.**
- 3. Reviewing each reimbursement claim for accuracy.**
- 4. Following up on SSA reimbursement adjustments.**
- 5. Ensuring compliance with the written policies and procedures.**

Current Status: IN PROCESS

The Commission has made improvements to the SSA reimbursement process and has implemented new policies that outline an appropriate amount of time to monitor clients. This policy provides guidelines for reviewing clients who may be more likely to qualify the State for SSA reimbursement. The Commission is also in the process of creating an electronic review of all clients on a quarterly basis. This process includes exchanging data with the SSA via the Idaho Department of Health and Welfare.

04S-6

Accounting controls for the Commission's aids and appliances inventory were inadequate. The Commission maintains an inventory of aids and appliances at its headquarters in Boise and at each of its five regional offices. The aids and appliances are primarily sold to clients directly or sold to Commission programs for use by its clients. Annual sales, which include a 20% mark-up on the majority of the inventory, are approximately \$68,000. The Commission's inventory is about \$70,000.

As explained below, the Commission can improve controls.

1. One employee purchases and receives inventory and records all inventory transactions, including inventory adjustments and write-offs, with no other employee reviewing the work.
2. No employee verifies that items paid for were actually received by the Commission.
3. Many Commission employees have access to the inventory, increasing the likelihood of items being added and removed without proper accounting.
4. The inventory value is more than annual sales and it is not reviewed for turnover or usage. Possibly, many of the more expensive items can be ordered and delivered directly to the Commission's clients in a timely manner, instead of being inventoried.

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We recommended that the Commission determine the need for such an inventory or for such a large inventory. We also recommend that the Commission segregate duties, approve adjustments and write-offs, ensure items paid for were received, restrict access, review product turnover rates, and adjust inventory levels as necessary.

Current Status: **CLOSED**

The Commission has made improvements to its accounting controls related to the aids and appliances inventory. A monthly inventory count is taken and reconciled to inventory received and sold. The accounting section reviews all inventory adjustments. Access to the inventory is limited to the storekeeper, the store supervisor, and the accounting supervisor. The total inventory level has been reduced by 30%, and the Commission is continuing to reduce the amount of inventory on hand.

CONTROLLER, OFFICE OF THE STATE

04S-7

The Office had no formal IT planning/steering committee, nor did it have well-defined short- and long-range information technology plans. IT industry standards, as referenced in COBIT, call for detailed short- and long-range IT plans, typically produced by an IT planning/steering committee. The committee should include executive level representation, senior IT and non-IT management representation, and representation from major users both internal and external to the Office. This committee should study and provide guidance for long-range IT needs of all users, understanding that the committee will not only have an internal influence but also a statewide influence on the State's ability to accomplish its goals in an efficient and effective manner.

The Office holds weekly executive management meetings and other periodic meetings in which staff discuss various issues, including limited IT discussions. However, the Office did not have a separate IT planning/steering committee solely dedicated to aligning IT activities with the vision, mission, goals, and objectives of the Office. In addition, the IT steering committee should be responsible for producing the Office's long-range IT plan and ensuring that IT decisions make progress toward the goals stated in the long-range plan. As a result of having no IT steering committee, the Office also has no well-defined long-range IT plan.

We recommended that the Office establish a formal IT planning/steering committee dedicated specifically, but not solely, to strategic IT planning. We also recommended that the IT steering committee be charged with producing a long-range IT plan and overseeing the production of short-range IT plans, ensuring the plans align with the long-range plan.

Current Status: **IN PROCESS**

The Office has organized its official IT Steering and Advisory Committee with membership from both inside and outside the Office. The first committee meeting was held in September 2004. The committee is working on a draft IT plan, scheduled to be completed by December 2004.

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04S-8

The Office had no service-level agreements with its business partners to ensure the continuity of critical business services. The Division of Computer Services did not have or maintain service-level agreements with any of its internal or external customers. The Division is responsible for the principal mainframe computer and other servers operated by the State, that are used to run applications and house data needed by other organizations including, State agencies and other non-State business partners. The most notable mainframe applications include STARS, EIS, and several Health and Welfare applications. In addition to this responsibility, the Division also provides programming and development services to other internal divisions and State agencies. Clearly, many parties depend on the Office to provide these critical business services.

It is important to note that the Office also depends on other parties to provide critical business services to the Office. These services are critical to the Office's ability to provide continuous critical business services to others. As noted, the Office receives and provides critical business services, thereby establishing the need for agreements between all related parties.

We recommended that the Office work with its major service suppliers and customers, both internal and external, to implement service-level agreements. These agreements can be either two-party agreements or three or more party agreements, as long as the objective of ensuring continuous critical business services is met.

Current Status: **IN PROCESS**

The IT Steering and Advisory Committee is in place and currently addressing this issue.

04S-9

The Employee Information Handbook did not contain effective up-to-date policies regarding computer, Internet, or e-mail usage. The Office had not updated its employee handbook since 1999. This is because the Office lacks a process for periodically reviewing the handbook. A lack of communication and understanding between management and employees regarding IT policies creates a control weakness, which allows the possibility for employees to make costly errors and then reason that they had no direction from the organization regarding the action in question. Good business practice and IT standards suggest the need for current, detailed policies specifically related to general use of computers, the Internet, and e-mail.

We recommended that the Office initiate a process to ensure that the employee handbook, as well as other IT policies, are updated on a periodic basis. At a minimum, the policies should reference existing statewide executive level policies, stating that it is the policy of the Office to follow these executive level policies. Each employee should then be required to acknowledge, in writing, and on an annual basis, that they have read and understand the Office policy.

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Current Status: **CLOSED**

The Office has updated its employee handbook. It used this opportunity to address issues in the handbook that were previously either not addressed, such as remote computer use guidelines, or that needed to be revisited and rewritten, such as the Fair Labor and Standards Act (FLSA) section. The handbook was finalized and issued in September 2004.

04S-10

The Office did not routinely cross-train its IT staff. Industry best practices recommend cross-training IT workers. While it is assumed that some workers could perform many of the tasks of other workers, we found no established plan for cross-training IT personnel. If workers are not sufficiently cross-trained, disruptions in service can occur, as well as the loss of institutional knowledge when workers leave the agency.

Cross-training provides an important function and helps maintain a competent staff. This training is crucial when back-up personnel are needed to cover critical IT functions, especially during disasters or when workflow bottlenecks occur, requiring additional personnel in specific areas.

We recommended that the Office initiate an office-wide policy requiring some form of practical cross-training between IT functions.

Current Status: **IN PROCESS**

The IT Steering and Advisory Committee is in place and currently addressing this issue.

04S-11

The Office had no alternate power source to sustain the State's central computer systems for an extended period of time in case of a power outage. Industry standards and best business practices recommend that organizations provide a backup power supply capable of sustaining critical operations in the event of a power failure until power is restored. The Office's computer system, especially its mainframe system, is critical to the State's daily business operations. Without the ability for the computers to operate during a period of prolonged power outages, the Office would be faced with relocating to an alternate site or shutting down operations and waiting for the power to be restored.

We recommended that the Office acquire an alternate power source capable of sustaining its critical business operations for extended periods. We also recommended that the Office coordinate with other capitol mall agencies to determine whether it would be practical and more efficient to combine efforts to obtain an alternate power source capable of restoring lost power to all critical systems in the area.

Current Status: **CLOSED**

The Office has implemented an alternate power supply large enough to accommodate its operations. The alternate power supply is operational and tested on a regular basis.

04S-12

The business continuity plan did not address all key internal and external concerns. Industry standards and good business practices recommend creating thorough, comprehensive business continuity plans that are published and tested for workability. The Office's Division of Computer Services had a detailed plan to restore computer operations in the event of an in-house mainframe system failure. Although the plan allowed for limited computer resources to be established at a remote site in a different geographical area, the plan did not fully consider the possible overall impact on the operations of the Office and other State agencies. The possible areas of impact include, but are not limited to, STARS, EIS, and computer services for employees not working at the alternate site, both inside and outside of the Office.

Outside of internal operations, the Office must coordinate with other State agencies should an emergency occur. These agencies need to know how to contact key Office personnel and how to reestablish system connections to STARS, EIS, several Health and Welfare applications, and any other office system necessary for each to carry out their responsibilities.

We recommended that the Office review its overall operations and adjust its business continuity plan to address the needs and requirements of all affected parties.

Current Status: **IN PROCESS**

The Office is in the process of creating a memorandum of understanding for alternate local office space and communications. The IT Steering and Advisory Committee is in place and currently addressing this issue.

ENVIRONMENTAL QUALITY, DEPARTMENT OF – CLEAN WATER STATE REVOLVING FUND

04S-13

The Department had not invested available cash in the State Treasurer's long-term investment pool in order to increase its earnings. The State Treasurer's Office manages a long-term investment fund as an alternative to short-term investments for those State agencies that have idle cash. In fiscal year 2004, the Treasurer's long-term fund earnings were almost 3% higher than the short-term fund earnings. The net change in cash flow for the Fund during fiscal year 2004 was a \$3 million decrease. This still left more than \$66 million in the Fund as unused during the fiscal year.

Closer monitoring of cash needs and investing in longer term investments would improve investment earnings. As of January 2005, the Fund had more than \$69 million in cash. Much of this cash was not needed immediately and could have been invested in longer term investments to earn higher yields. An interest rate increase of just 1% would yield about \$600,000 in one year; a 3% increase would yield about \$1.8 million in one year. As a result of not investing in longer term investments, the opportunity for increased earnings was lost.

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We recommended that the Department complete a cash flow analysis and, based on the results, consider making long-term investments. The Department should also complete cash flow analyses periodically and consider laddering the investment maturity dates to maximize earnings.

Current Status: **CLOSED**

The Department now completes a cash flow projection each month. It has placed a total of \$44 million in the State Treasurer's long-term investment pool, \$40 million of which is from the Clean Water State Revolving Fund.

04S-14

The system used for the Fund's accounting was cumbersome and contributes to accounting errors. The Department's loan fund accounting system was more than 15 years old and required multiple transactions and data entries. It also required peripheral systems to complete necessary accounting, which increased the opportunity for errors. Furthermore, only one fiscal employee had the knowledge to operate and access the system, which increased the risk that funds could be misappropriated and that errors could go undetected. If this employee terminated his employment, it would be difficult for the Department to complete its accounting.

The Department used three fund details and many program codes to account for the Fund's activities in the State's accounting system (STARS). We believed some of the errors and control weaknesses listed below were partially the result of the accounting system and the extensive coding scheme in STARS.

1. The financial statement amounts could not be reconciled to supporting documentation.
2. The financial statements were not balanced.
3. The Department reported loan interest receivables for two loans as a negative amount.
4. The financial statements were not completed in a timely manner.

We recommended that the Department upgrade and improve the accounting system and procedures. This should include the following:

1. **Consider purchasing a new integrated accounting system.**
2. **Ensure that more than one person is trained to complete the Fund's accounting.**
3. **Generate accounting reports in a timely manner and that management review the reports to monitor financial activities.**
4. **Complete timely reconciliations of transactions and all accounting through one fund detail and reduce the number of program codes.**

Current Status: **CLOSED**

The Department has not purchased a new accounting system, nor eliminated funds or program codes. Furthermore, only one employee, with little oversight, is still completing the accounting and errors are still occurring. This finding is closed and repeated in a subsequent report.

04S-15

Documentation in the loan files was not always adequate to support loan transactions or other loan decisions. Loans to local municipalities for the construction of wastewater pollution control facilities can extend for several years, involve complex accounting transactions, and impact many people. Therefore, good documentation of transactions and support for loan decisions is necessary to minimize confusion and protect all parties from potential allegations of wrongdoing.

The Department could not provide adequate documentation for some transactions and decisions affecting loans. This lack of documentation placed the Department at risk of a local entity contending that it did not agree to the conditions. The following are examples of missing documentation areas that were in need of improvement:

1. The Department did not accrue interest for certain periods on several loans.
2. The Department re-amortized loans after some entities made prepayments.
3. There was no documentation explaining the reasons for encouraging several local entities to refinance their loans through local bonds.
4. There was no documentation explaining why loan amounts as recorded in the accounting system and amounts placed in the loan closing documents did not always agree to the beginning loan amortization amounts.

We recommended that the Department document all loan decisions that affect the loans or transactions related to them. The loan files should include:

1. **Justification and approvals by management for not accruing interest on loans.**
2. **Documentation that supports the re-amortization of loans, including management's approval and the local entity's concurrence.**
3. **Documentation of loan analyses and decision making processes prior to encouraging local entities to refinance their loans.**
4. **Explanation of the variances in loan amounts reported on the loan detail report and the loan amortization schedule.**

Current Status: CLOSED

Documentation still needs to be improved. In some instances, there were no addendums to the loan agreements or correspondence in the loan files to indicate that all parties agreed to the reamortizations, or that they were approved by management. Loan agreements did not explain how non-scheduled payments were to be reported, nor did the Department have a policy for recording non-scheduled payments. In some instances, there was no documentation in the loan files explaining why the initial loan amount recorded as a receivable did not agree with the amount reported on the repayment schedule or with the loan closing documents. This finding is closed and repeated in a subsequent report.

ENVIRONMENTAL QUALITY, DEPARTMENT OF – DRINKING WATER STATE REVOLVING FUND

04S-16

The Department's system used for the Fund's accounting was cumbersome and contributed to accounting errors. The Department's loan fund accounting system was more than 15 years old and required multiple transactions and data entries. It also required peripheral systems to complete necessary accounting, which increased the opportunity for errors. Furthermore, only one fiscal employee had the knowledge to operate and access the system, which increased the risk that funds could be misappropriated and that errors could go undetected. If this employee terminated his employment, it would be difficult for the Department to complete its accounting.

For example, loan interest reported in STARS did not agree with loan interest reported in the Fund's accounting system by \$214,000. Also, the Department only generates financial statements once a year. Generating financial information more often would provide management with a tool to review and monitor financial activities.

We recommended that the Department upgrade and improve the accounting system and procedures. This should include the following:

- 1. Consider purchasing a new integrated accounting system.**
- 2. Ensure that more than one person is trained to complete the Fund's accounting.**
- 3. Generate accounting reports in a timely manner and that management review the reports to monitor financial activities.**
- 4. Complete timely reconciliations of transactions, complete all accounting through one fund detail, and reduce the number of program codes.**

Current Status: CLOSED

The Department still uses multiple funds, does not complete financial reporting in a timely manner, has not purchased a new accounting system, and still has accounting errors. This finding is closed and repeated in a subsequent report.

FOOD QUALITY INSTITUTE, IDAHO

04S-17

Decentralized operations contributed to errors and internal control weaknesses. The Idaho Food Quality Assurance Institute was established in 1996 to provide ongoing quality assurance testing for Idaho agricultural commodities. The Institute's laboratory is located in Twin Falls on the campus of the College of Southern Idaho. The day-to-day financial operations, such as receipting revenue and paying expenditures, are processed at the University of Idaho. The Idaho Department of Agriculture in Boise prepares the Institute's annual financial statements.

This decentralization of operations may have caused several errors, control weaknesses, and incorrect financial statements. For example:

- 1. The Institute did not record about \$260,000 of equipment purchases in prior years.**

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2. The financial statements did not include all payables or cash transfers of about \$78,000, and did not reconcile with cash in the bank.
3. Documentation was not always adequate.

We recommended that the Institute consider centralizing the authority to complete accounting and management to specific individuals, and make needed reconciliations, document transactions, and complete other procedures to ensure financial activities are properly reported.

Current Status: **CLOSED**

Beginning July 1, 2005, the authority for the Institute's accounting was centralized under the Idaho Department of Agriculture. The University of Idaho will be removed from the day-to-day financial operations. The Institute has now recorded the approximately \$260,000 in equipment purchased in the previous years that was missing from the prior financial statements.

HEALTH AND WELFARE, DEPARTMENT OF

04S-18

Contracting for IT services was not cost effective when compared to hiring State staff. Several years ago, the Department outsourced most of the IT programming and maintenance services, partly to resolve Y2K issues, as well as meet the reductions in State staff required by appropriations. The availability of skilled computer programmers and IT professionals had improved significantly over the past several years, and the opportunity existed to hire these skills at a lower cost than the current contracting rates. The limiting factor was executive and legislative authority to increase the number of full-time positions within the Department.

During fiscal year 2004, the Department paid \$4.8 million to a contractor for 82,600 hours of IT system maintenance and programming services at an average cost of about \$60 per hour. This volume of hours represented nearly 50 full time positions, while the total cost of the contract could have funded about 65 positions based on then current pay scales.

The bulk of services provided by the contractor involved existing program maintenance, which generally required a basic or moderate level of ability and programming skills. Most of these efforts required skills and abilities similar to State classified job descriptions, with pay rates between \$22 and \$28 per hour. We estimated that the Department could fill 35 to 40 contractor positions with State staff and save in excess of \$2 million annually.

We recommended that the Department reevaluate the IT programming and maintenance services contract and seek executive and legislative authority to replace contract personnel with State staff to reduce costs.

Current Status: **CLOSED**

The Department currently has authorization to replace 16 of 20 positions. The remaining four positions will be available for hiring in March 2006. Of the 16 positions currently authorized, 7 have been filled and 7 are currently posted and in the hiring process. The hiring delays are due in part to the IT division undergoing a restructuring which affects all units. The IT division administrator and bureau chiefs are reviewing and determining those areas where contractor conversions to State staff should occur so the Department properly benefits.

LIQUOR DISPENSARY, STATE

04S-19

The Dispensary sold some products that it may not have legislative authority to sell. The Dispensary has the authority to permit, license, inspect, and regulate the manufacture, importation, transportation, storage, sale and delivery of alcoholic liquor for purposes permitted under Idaho Code, Section 23-203. Alcoholic liquor is defined as any liquid or solid containing alcohol, spirits, wine, and any liquid or solid containing more than 4% percent of alcohol by weight.

The Dispensary was selling items not included in the definition of alcoholic liquor, such as garnishes, non-alcoholic mixers, cocktail recipe books, bar tools, and Idaho wines in direct competition with retail stores.

Idaho Code, Section 23-203(e) allows the Dispensary to acquire, buy, or lease personal property necessary and convenient for the conduct of its business. Idaho Code, Section 23-203(g) gives the Dispensary general powers to do all things necessary and incidental to its powers and duties under this act. The Dispensary believed that these two codes allowed it to sell items other than alcoholic liquor. Although the sale of non-alcoholic items was less than 1% of total sales, we believed the Dispensary was not authorized to sell those products.

We recommended that the Dispensary request an opinion from the Idaho Attorney General's Office to determine whether it has the authority to sell non-alcoholic items in the State-run stores.

Current Status: **IN PROCESS**

The Dispensary did not obtain an Attorney General's opinion, but plans to introduce legislation in the 2006 legislative session to clarify the language in the Idaho Code, Section 23-203, to specifically allow it to sell the types of non-liquor items that it currently sells. While the Dispensary believes it already has the authority to sell those liquor related items, it agrees the Idaho Code could be more clear.

04S-20

The 2% surcharge required by Idaho Code was not assessed on some items, resulting in the Dispensary not collecting \$11,300 for the Drug and Family Court Services Fund. Idaho Code, Section 23-217 was amended effective July 1, 2003, and directed the Dispensary to include a 2% surcharge in the price of goods sold by the Dispensary and its branches. The surcharge is assessed and collected on all alcoholic items sold at the point of sale. The surcharge is remitted to the Drug and Family Court Services Fund on a monthly basis.

The Dispensary sells many non-alcoholic items through its retail stores. The additional 2% surcharge is neither assessed nor collected on these non-alcoholic items. The pricing model used by the Dispensary to formulate the retail price of goods sold excludes non-alcoholic items from the application of this surcharge.

During fiscal year 2004, non-alcoholic items sold totaled about \$565,000. The surcharge on this amount of sales would be about \$11,300.

We recommended that the Dispensary apply the surcharge to all appropriate items sold, as directed by Idaho Code.

Current Status: **CLOSED**

The Dispensary applied the 2% surcharge to all items, including non-liquor items, effective February 1, 2005. In addition, the Dispensary's fiscal year 2006 appropriation required that it transfer the \$11,300 uncollected surcharge to the Drug and Family Court Services Fund on July 1, 2005.

FINDING 04S-21

The Dispensary did not have a procedure to determine changes in local option sales tax rates, resulting in \$25,000 in sales tax that was not collected. The Dispensary collects State sales tax on all sales through its retail stores. Idaho Code, Section 63-2602 allows counties to assess a local option tax if approved by the taxpayers. Kootenai County's constituents approved a 0.5% local option tax, (effective April 1, 2004) to be applied to all sales that are taxable under the State's sales tax.

The Dispensary did not adjust its operations to begin collecting the local option tax by the effective date. Collection of the tax did not begin until September 1, 2004. Based on county sales information, the Dispensary estimated that the delay in implementing the local option tax resulted in a loss of approximately \$25,000 for Kootenai County for the five months the tax was not collected.

We recommended that the Dispensary implement procedures to ensure that changes in tax assessments are completed on the appropriate effective date.

Current Status: **CLOSED**

The Dispensary's point of sale (POS) cash register system was not programmed or capable of charging any form of sales tax. The POS system has been reprogrammed to allow for sales tax collections, as well as to make changes to the tax rates at the beginning of any month. In addition, the Dispensary will request that the State Tax Commission notify the Dispensary whenever there is a change in any local county option sales tax.

04S-22

Sales tax was collected from the sale of non-alcoholic items, but not deposited in the State Sales Tax Account. The Dispensary collected State sales tax on all sales through its retail stores. The sales tax was deposited in the Dispensary's liquor account and included in the annual distributions. This is in accordance with Idaho Code, Section 63-3638A which states that the sales tax collected on liquor sales is to be credited to the liquor account and not become part of the State sales tax account.

The Dispensary sells many non-alcoholic items through its retail stores. These items do not meet the definition of alcoholic liquor as defined in Idaho Code, Section 23-105. The sales tax collected on the sale of these items was also deposited in the Dispensary's liquor account. During fiscal year 2004, the sale of non-alcoholic products generated approximately \$34,000 in sales tax revenue.

The Dispensary had been depositing the sales tax collected on non-alcoholic items into the liquor account without realizing that Idaho Code is based on the sale of alcoholic liquor only. If the Dispensary determines that the sale of non-alcoholic items is allowed by Idaho Code, it should deposit the sales tax collected on these items in the State sales tax account, not in the liquor account.

We recommended that the sales tax collected on the sale of non-liquor items be remitted to the appropriate account, as required by Idaho Code.

Current Status: **IN PROCESS**

The Dispensary plans to introduce legislation in the 2006 legislative session to clarify the language in Idaho Code, Section 23-401, to specifically require that all State sales tax collected, including the tax on non-liquor items, be deposited into the liquor account. The Dispensary believes that was the original intent of the existing legislation.

MILITARY, DIVISION OF

FINDING 04S-23

Some accounting procedures did not ensure that controls were in place and that financial information was accurate. The Division needed to improve some accounting procedures. For example, the Division (1) failed to obtain about \$200,000 in federal funds because it did not modify agreements with the federal government; (2) did not always require all employees to sign their time sheets, which could allow employees to dispute time records; and (3) did not always comply with travel policies and regulations. Also, the Division did not provide accurate information (used to compile statewide financial reports) to the State Controller, and incorrectly recorded revenue as negative expenditures, thereby understating revenues and expenditures, and could be used to circumvent appropriation laws.

We recommended that the Division establish controls and procedures for each of these issues to ensure accurate accounting, compliance with policies and regulations, and protection of assets.

Current Status: **CLOSED**

The Division has reassigned resources and provided additional training and support, which have helped modify federal agreements. As a result of these changes, the Division modified agreements for the year ending September 30, 2004, to obtain virtually all federal funds. The Division has implemented the State's electronic time reporting system (I-TIME), so employees now electronically sign their own time sheets. Additionally,

the Division has provided training to managers on travel policies, and accounting staff is more closely scrutinizing travel claims prior to reimbursement. The Division discontinued recording revenues as negative expenditures, and has correctly reported accurate information to the State Controller regarding the *Catalog of Federal Domestic Assistance* information for the Homeland Security grants.

04S-24

The Division's IT organizational structure did not allow for efficient performance, nor timely management information. Efficient IT organizations are structured to identify risks, prioritize projects, respond to needs in a timely manner, document IT applications, ensure that systems are secure, and monitor goals and objectives. Not all IT personnel report to the chief technology officer. Some staff are directed and monitored by program personnel. The Division's organization structure may have contribute to the following issues:

1. The Division did not have procedures to identify IT risks or prioritize projects.
2. The Division did not have effective procedures to ensure that program changes or modifications are properly identified or completed, nor were there procedures in place to request system changes or corrections.
3. The Division did not have procedures to ensure that applications are adequately documented.
4. The Division's IT systems security needed to be improved.

We recommended that the Division review its organizational structure and consider having its chief technology officer direct and monitor the activities of all IT staff, as well as consider the current workload of its IT section and act accordingly. We also recommended that the Division establish formal written policies to identify risk areas, prioritize projects, modify or correct current applications, document program applications developed by members of its staff, and ensure that computer operations are secure.

Current Status: IN PROCESS

The Division has taken some action to resolve these issues, although further action will be necessary to fulfill the Division's corrective action plan. The Division has reorganized its IT staff to ensure that the chief information officer supervises and prioritizes the work of the IT staff and has begun implementation of a project management system. The Division has also reviewed system access rights and made adjustments as needed, as well as reminded employees to keep passwords confidential. While this work is commendable, the Division has yet to document many of its policies, procedures, and systems.

TREASURER, OFFICE OF THE STATE

04S-25

Internal controls were inadequate to ensure the accuracy of all transactions in the Local Government Investment Pool (LGIP). The State Treasurer's Office maintains a computer application called QED to track securities, investment earnings, and to make distributions of income for the many funds and accounts managed by the Office. At June 30, 2004, the LGIP totaled \$1.4 billion in cash and investments. Internal

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controls in this system and other procedures are necessary to ensure accurate accounting and reporting for those investments.

The following issues were examples of weaknesses in the internal control system that need improvement.

1. The application used to calculate earnings for LGIP participants did not have adequate controls in place to prohibit changes to the underlying investment information. For example, manual adjustments to some investments accelerated the amortization of premiums paid, thus overpaying income to the participants by approximately \$112,000 for that time period.
2. Adequate documentation explaining the purpose for investment trades and how those trades correlate to the Treasurer's investment policy was not available for certain sales transactions. During fiscal year 2004, eight securities were voluntarily sold for losses totaling \$1,047,949 without documentation showing the purpose of the sale or supervisor review.
3. The earnings calculated to be distributed were not reconciled to the monthly transaction report by participant for the LGIP.
4. Adjustments and entries had the ability within the QED application to be retroactive, thus changing reported amounts that may have been used for prior earnings distributions or pool valuations.

We recommended that the Treasurer's Office improve internal control procedures by:

1. **Implementing an approval and review process over investment transactions within the LGIP.**
2. **Limiting authority to make changes to certain data in the accounting system, and that authority should not be held by staff responsible for the day-to-day transaction processing.**
3. **Reconciling the income earned to the amount distributed to participants, and to various internal and external reports.**
4. **Ensuring that data entered into the accounting system in prior periods cannot be changed by current transactions.**

Current Status: CLOSED

The Office has implemented several control procedures that specifically address these weaknesses, such as:

1. Two administrators are designated to oversee investment applications used to account for the LGIP.
2. A reconciliation process has been implemented for the LGIP security trades.
3. The investment manager reviews accounts distribution to the income.
4. The application now includes a 60-day hard close process.

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